Lancashire Holdings Limited
Consolidated financial statements for the
year ended 31 December 2023

Delivering together

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Notes	2023 $m	Restated 2022 $m
Insurance revenue	2, 13	**1,519.9**	1,226.5
Insurance service expenses	2, 3, 6,13	**(696.2)**	(994.6)
Insurance service result before reinsurance contracts held		**823.7**	231.9
Allocation of reinsurance premium	2, 13	**(424.8)**	(371.8)
Amounts recoverable from reinsurers	2, 3, 13	**(16.8)**	281.5
Net expense from reinsurance contracts held		**(441.6)**	(90.3)
Insurance service result		**382.1**	141.6
Net investment return	2, 4	**160.5**	(76.7)
Finance (expense) income from insurance contracts issued	2, 3	**(98.3)**	20.1
Finance income (expense) from reinsurance contracts held	2, 3	**31.7**	(6.7)
Net insurance and investment result		**476.0**	78.3
Share of profit (loss) of associate	15	**12.1**	(5.4)
Other income	5	**2.9**	6.5
Net foreign exchange losses		**(4.1)**	(0.6)
Other operating expenses	2, 6	**(107.4)**	(58.3)
Equity based compensation	7	**(15.2)**	(8.6)
Financing costs	8	**(31.6)**	(29.2)
Profit (loss) before tax		**332.7**	(17.3)
Tax (charge) credit	9	**(11.2)**	1.8
Profit (loss) after tax		**321.5**	(15.5)
Earnings (loss) per share			
Basic	20	**$1.35**	($0.06)
Diluted	20	**$1.32**	($0.06)

Consolidated statement of financial position

As at 31 December 2023

	Notes	31 December 2023 $m	Restated 31 December 2022 $m	Restated 1 January 2022 $m
Assets				
Cash and cash equivalents	10, 18	**756.9**	548.8	517.7
Accrued interest receivable		**16.7**	11.3	7.1
Investments	11, 12, 18	**2,455.5**	2,204.9	2,048.1
Reinsurance contract assets	13	**387.8**	474.3	326.5
Other receivables		**58.4**	30.0	18.8
Corporation tax receivable		**—**	1.1	—
Investment in associate	12, 15	**16.2**	59.7	120.1
Right-of-use assets	16	**19.3**	20.3	13.4
Property, plant and equipment		**9.8**	1.1	0.8
Intangible assets	17	**181.1**	172.4	157.9
Total assets		**3,901.7**	3,523.9	3,210.4
Liabilities				
Insurance contract liabilities	13	**1,823.7**	1,673.5	1,302.3
Other payables		**80.6**	44.6	37.4
Corporation tax payable		**2.0**	—	1.6
Deferred tax liability	14	**16.2**	10.3	11.6
Lease liabilities	16	**24.7**	23.3	17.9
Long-term debt	18	**446.6**	446.1	445.7
Total liabilities		**2,393.8**	2,197.8	1,816.5
Shareholders' equity				
Share capital	19	**122.0**	122.0	122.0
Own shares	19	**(29.7)**	(34.0)	(18.1)
Other reserves	19	**1,233.2**	1,221.9	1,221.6
Retained earnings		**182.4**	16.2	67.9
Total shareholders' equity attributable to equity shareholders of LHL		**1,507.9**	1,326.1	1,393.4
Non-controlling interests		**—**	—	0.5
Total shareholders' equity		**1,507.9**	1,326.1	1,393.9
Total liabilities and shareholders' equity		**3,901.7**	3,523.9	3,210.4

The consolidated financial statements were approved by the Board of Directors on 5 March 2024 and signed on its behalf by:

Peter Clarke
Director/Chair

Natalie Kershaw
Director/CFO

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2023

	Notes	Share capital $m	Own shares $m	Other reserves $m	Accumulated other comprehensive income $m	Retained earnings $m	Shareholders' equity attributable to equity shareholders of LHL $m	Non-controlling interests $m	Restated Total shareholders' equity $m
Balance as at 1 January 2022, as previously reported		122.0	(18.1)	1,221.6	2.9	83.9	1,412.3	0.5	1,412.8
Initial application of IFRS 9 - Financial instruments, net of tax	24	—	—	—	(2.9)	2.9	—	—	—
Initial application of IFRS 17 - Insurance contracts, net of tax	23	—	—	—	—	(18.9)	(18.9)	—	(18.9)
Balance as at 1 January 2022 (restated)		122.0	(18.1)	1,221.6	—	67.9	1,393.4	0.5	1,393.9
Loss for the year (restated)		—	—	—	—	(15.5)	(15.5)	—	(15.5)
Share repurchases	19	—	(23.3)	—	—	—	(23.3)	—	(23.3)
Distributed by the trust	19	—	8.1	(8.9)	—	—	(0.8)	—	(0.8)
Shares donated to the trust	19	—	(0.7)	0.7	—	—	—	—	—
Dividends on common shares	19	—	—	—	—	(36.2)	(36.2)	—	(36.2)
Repurchase of shares from non-controlling interest		—	—	(0.6)	—	—	(0.6)	(0.5)	(1.1)
Net deferred tax		—	—	0.1	—	—	0.1	—	0.1
Equity based compensation		—	—	9.0	—	—	9.0	—	9.0
Balance as at 31 December 2022 (restated)		122.0	(34.0)	1,221.9	—	16.2	1,326.1	—	1,326.1
Profit for the year		—	—	—	—	**321.5**	**321.5**	—	**321.5**
Distributed by the trust	19	—	**4.3**	**(4.8)**	—	—	**(0.5)**	—	**(0.5)**
Dividends on common shares	19	—	—	—	—	**(155.3)**	**(155.3)**	—	**(155.3)**
Net deferred tax		—	—	**0.4**	—	—	**0.4**	—	**0.4**
Equity based compensation		—	—	**15.7**	—	—	**15.7**	—	**15.7**
Balance as at 31 December 2023		**122.0**	**(29.7)**	**1,233.2**	—	**182.4**	**1,507.9**	—	**1,507.9**

Consolidated statement of cash flows

For the year ended 31 December 2023

	Notes	2023 $m	Restated 2022 $m
Cash flows from operating activities			
Profit (loss) before tax		**332.7**	(17.3)
Adjustments for:			
Tax paid		**(1.9)**	(2.1)
Depreciation		**4.3**	3.1
Amortisation on intangible assets	17	**0.2**	—
Impairment of intangible assets	17	**1.4**	—
Interest expense on long-term debt	16	**25.8**	25.8
Interest expense on lease liabilities	16	**1.5**	0.8
Interest income		**(95.4)**	(46.1)
Dividend income		**(11.3)**	(8.1)
Net unrealised (gains) losses on investments	4	**(53.4)**	103.0
Net realised (gains) losses on investments	4	**(3.9)**	24.7
Equity based compensation		**15.2**	8.6
Foreign exchange losses (gains)		**3.9**	(7.9)
Share of (profit) loss of associate	15	**(12.1)**	5.4
Changes in operational assets and liabilities			
• Insurance and reinsurance contracts		**220.4**	239.7
• Other assets and liabilities		**14.5**	(5.8)
Net cash flows from operating activities		**441.9**	323.8
Cash flows used in investing activities			
Interest income received		**90.0**	41.9
Dividend income received		**11.3**	8.1
Purchase of property, plant and equipment		**(9.6)**	(0.7)
Purchase of underwriting capacity	17	**(3.3)**	(4.2)
Internally generated intangible asset	17	**(7.0)**	(10.3)
Investment in associate	22	**55.6**	55.0
Purchase of investments		**(1,057.4)**	(1,130.2)
Proceeds on sale of investments		**866.1**	845.5
Net cash flows used in investing activities		**(54.3)**	(194.9)
Cash flows used in financing activities			
Interest paid		**(25.8)**	(25.8)
Lease liabilities paid	16	**(3.8)**	(3.6)
Dividends paid	19	**(155.3)**	(36.2)
Share repurchases		**—**	(23.3)
Distributions by trust		**(0.5)**	(0.8)
Purchase of shares from non-controlling interest		**—**	(1.1)
Net cash flows used in financing activities		**(185.4)**	(90.8)
Net increase in cash and cash equivalents		**202.2**	38.1
Cash and cash equivalents at beginning of year		**548.8**	517.7
Effect of exchange rate fluctuations and other items on cash and cash equivalents		**5.9**	(7.0)
Cash and cash equivalents at end of year		**756.9**	548.8

Accounting policies

For the year ended 31 December 2023

The statutory accounts for the year ended 31 December 2023 (including financial information for 31 December 2022 as restated for the adoption of IFRS 17 and IFRS 9) have been reported on by the Company's auditor and their report was (i) unqualified and (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report. The Annual Report and Accounts, including the auditor's report, will be published by the Company on its website on 28 March 2024.

Summary of material accounting policies

The basis of preparation, use of judgements, estimates and assumptions, consolidation principles, and material accounting policies adopted in the preparation of these consolidated financial statements are set out below. Effective from 1 January 2023, the Group adopted IFRS 17, Insurance Contracts and IFRS 9, Financial Instruments: Classification and Measurement. The related changes from adopting these standards are set out in notes 23 and 24 respectively.

Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS (as issued by the International Accounting Standards Board), as adopted by E.U.

Going concern basis of accounting

The consolidated financial statements have been prepared on a going concern basis. In assessing the Group's going concern position as at 31 December 2023, the Directors have considered a number of factors. These include:

- the current balance sheet and liquidity position;
- the level and composition of the Group's capital and solvency ratios;
- the Group's ability to service its long-term debt financing arrangements;
- the current performance against the Group's strategic and financial business plan;
- the Group's dividend distribution policy; and
- the current market environment, including consideration for climate change.

In addition, the ORSA report is a key document informing the Group's going concern assessment that is submitted to the Board.

The Group's financial forecasts reflect the outcomes that the Directors consider most likely, based on the information available at the date of signing these consolidated financial statements. To assess the Group's going concern, the financial stability of the Group was modelled for a period of at least 12 months and a number of sensitivity, stress and scenario tests were applied. This included a best estimate forecast, as well as various scenarios. This incorporated different magnitudes of reserve releases and attritional, large and catastrophe loss events, plus optimistic and pessimistic investment return scenarios.

To further stress the financial stability of the Group, additional stress testing was performed. This included modelling the breakeven capital requirements of our regulators and rating agencies, the impact of potential management actions to reduce the Group's exposure to climate change-related risks, and a combination of large losses and catastrophe losses, which would result in a net loss for the Group, and finally a reverse stress test scenario designed to render the business model unviable. The testing identified that even under the more severe but plausible stress scenarios, the Group had more than adequate liquidity and solvency headroom.

Based on the going concern assessment performed, the Directors consider there to be no material uncertainties that may cast significant doubt over the Group's ability to continue to operate as a going concern. The Directors have formed a judgement that there is a reasonable expectation that the Group has adequate resources to continue in operational existence in the foreseeable future, a period of at least 12 months from the date of signing these consolidated financial statements.

Currency and liquidity

All amounts, excluding share data or where otherwise stated, are in millions of U.S. dollars ($m), with amounts rounded to the nearest $0.1 million where appropriate. The consolidated statement of financial position is presented in order of decreasing liquidity.

Use of judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

Assumptions and estimates are based on information, knowledge and data available when the consolidated financial statements are prepared. However, existing circumstances and assumptions about future developments may change, or circumstances may arise that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur, and are recognised prospectively. It is considered impracticable to determine the effect that changes in these assumptions and estimates are expected to have on future periods.

Key assumptions concerning the future, and sources of estimation uncertainty

The Group has considered both key assumptions concerning the future, and sources of estimation uncertainty, that might be expected to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in a subsequent financial year.

Insurance contracts issued and reinsurance contracts held

The Group has determined that its most significant area of estimation uncertainty is in relation to the measurement of insurance contracts issued and reinsurance contracts held. Changes in assumptions made may materially change the FCF that make up these balances. The FCF are the current estimates of the future cash flows within the contract boundary of a group of insurance or reinsurance contracts that, we expect to collect premiums from, and pay out claims, benefits and expenses in respect of, adjusted to reflect the timing and uncertainty of those amounts. Changes in the following key assumptions may change the FCF materially:

- assumptions about the amount and timing of future cash flows;
- assumptions about claims development;
- assumptions about discount rates, including any illiquidity premiums; and
- assumptions about the risk adjustment for non-financial risk.

The estimation of the FCF is a complex actuarial process which incorporates a significant amount of judgement, in particular in relation to the estimation of the LIC and AIC. Delays in reporting losses to the Group, together with unforeseen loss development, increase uncertainty over the accuracy of loss reserves. A significant portion of the Group's business is in classes with high attachment points of coverage and therefore a low frequency but high severity of claims. This adds further complexity to the reserving process due to the limited volume of industry data available from which to reliably predict ultimate losses following a loss event. Volatility for the majority of losses is limited on a net basis by the reinsurance protection purchased.

Information about these key assumptions and estimates are included within our risk disclosures on pages 148 to 166.

Level (iii) investments

The Group holds a relatively straightforward investment portfolio consisting mainly of standard fixed maturity products. Level (iii) investments are securities for which valuation techniques are not based on observable market data, and require significant management judgement to determine an appropriate fair value. The Group determines securities classified as Level (iii) to include hedge funds, private investment funds and loans made to the Lloyd's central fund. The estimation of fair value, specifically for Level (iii) investments, is discussed in note 11.

Annual impairment assessments

The syndicate participation rights and goodwill are intangible assets with an indefinite life and subject to an annual impairment assessment. The Group applies judgement when determining the input assumptions to the value in use calculation. The input assumptions and their sensitivity are disclosed in note 17.

Management judgements, other than those involving estimations

Lancashire is an insurance group whose primary focus is on underwriting and actively balancing risk and return. In doing so it focuses on ensuring premium revenue and investment return exceeds the cost of claims, outwards reinsurance and operating expenses. The main areas in which judgement is applied is therefore in the measurement and recognition of insurance contracts and financial assets.

Simplified premium allocation measurement model

IFRS 17 allows for the use of a simplified measurement model. The PAA can be applied by the Group for a group of insurance contracts which it underwrites if the coverage period of each contract within the Group is one year or less, or if the liability for remaining coverage determined under the PAA is not expected to differ materially from that calculated under the GMM. The Group applies the PAA to simplify the measurement of all its insurance contracts issued and reinsurance contracts held. Groups of insurance contracts issued and reinsurance contracts held which include contracts with a coverage period of more than one year require a PAA eligibility assessment upon initial recognition, which in turn requires management judgement to be made in respect of 1) the allocation of an individual insurance or reinsurance contract to a portfolio of insurance contracts based on those individual contracts having similar risks and being managed together, 2) the division of the portfolios of insurance contracts into the three IFRS 17 groups of insurance contracts (as defined within the insurance contracts issued and reinsurance contracts held accounting policies section below), and 3) the performance of the underlying insurance contracts.

The Group considers that it is eligible to apply the PAA measurement model to its portfolios and groups of insurance contracts, on the basis that the measurement of the LRC is not reasonably expected to differ materially from that calculated under the GMM. In the years prior to IFRS 17 adoption, and in the initial year of adoption, this assessment was made through detailed modelling of all portfolios and groups of insurance contracts. Going forward the assessment will likely be more qualitative in nature, unless there is a significant shift in business mix, material new lines of business are entered into, or significant changes in relevant economic factors occur.

Level of aggregation

Judgement is required to determine the level of aggregation under IFRS 17. Insurance contracts issued that are subject to similar risks and that are managed together are classified into a portfolio of insurance contracts.

The following considerations have been given most weight in the definition of similar risks:

- risk aggregations used for other business purposes such as reserving;
- segmentations used for underwriting; and
- perils covered and incidence of risk over time.

Each portfolio of insurance contracts is then further disaggregated into annual cohorts, and each annual cohort is classified into three IFRS 17 groups of contracts for recognition and measurement purposes based on their expected profitability.

Onerous contract assessment

Management applies judgement to assess whether facts and circumstances indicate that a group of insurance contracts is onerous at initial recognition, or subsequently assesses whether facts and circumstances indicate any changes in the onerous group's profitability, and whether any loss component remeasurement is required.

Approach to transition

Judgement was applied to determine whether sufficient, reasonable and supportable information was available to apply a fully retrospective approach when transitioning to the new IFRS 17 and IFRS 9 accounting standards (see note 23 and 24).

Classification of investment portfolio

The classification of the Group's investment portfolio requires judgement in assessing the business model within which assets are held. The Group has established that all investment classes are managed, and their performance evaluated, on a fair value basis and therefore they are classified at FVTPL. This classification is discussed on page 144.

Changes in accounting policies

IFRS 17 and IFRS 9

Effective from 1 January 2023 the Group adopted IFRS 17, Insurance Contracts and IFRS 9, Financial Instruments: Classification and Measurement, including any consequential amendments to other standards. These standards have brought significant changes to the accounting for insurance contracts issued and reinsurance contracts held, and financial instruments. The impact of retrospectively adopting IFRS 17 and IFRS 9 is summarised in notes 23 and 24.

The Group's accounting policies that were impacted by the adoption of IFRS 17 and IFRS 9, are disclosed on pages 191 to 195.

OECD global minimum tax and Bermuda corporate income tax

To address concerns about uneven profit distribution and tax contributions of large multinational corporations, various agreements have been reached at the global level, including an agreement by over 135 jurisdictions to introduce a global minimum tax rate of 15%. Legislation was also passed in Bermuda on 27 December 2023, to implement a corporate income tax regime from 1 January 2025.

The UK has substantively enacted Pillar Two tax legislation, to implement the global minimum top-up tax on 20 June 2023. The Group could potentially be subject to the top-up tax in relation to its operations.

The IASB has issued an amendment to IAS 12 'International Tax Reform – Pillar Two Model Rules' which includes an exception from accounting for deferred taxes which was endorsed for use in the E.U. on 2 June 2023. Prior to the endorsement, the Group had developed an accounting policy applying the guidance in IAS 8. Under this accounting policy, the Group does not recognise the deferred tax impact of the top-up tax or remeasure existing deferred taxes. Instead, any incremental effect of the top up tax is recognised as current tax as it is incurred.

Refer to note 14 for further information.

Other accounting changes

Effective from 1 January 2023, the IASB issued amendments to IAS 1 Presentation of Financial Statements, together with an update to IFRS Practice Statement 2 Making Materiality Judgements. The changes primarily relate to considering accounting policies and transactions as either material or significant, and have been determined to be immaterial to the Group's financial statements.

There are also amendments to other existing standards and interpretations that are mandatory for the first time for financial periods beginning 1 January 2023. These are not currently relevant for the Group and do not impact the consolidated financial statements of the Group.

Consolidation principles

The Group consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at and for the year ended 31 December 2023. Subsidiaries are fully consolidated from the date of acquisition or incorporation, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Intercompany balances, profits and transactions are eliminated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary, and has the ability to affect those returns through its power over the subsidiary.

The Group participates in two syndicates at Lloyd's, which are managed by the Group's Lloyd’s managing agent subsidiary. In view of the several liability of underwriting members at Lloyd's, the Group recognises its proportion of all the transactions undertaken by the syndicates in which it participates within its consolidated statement of comprehensive income. Similarly, the Group's proportion of the syndicates' assets and liabilities has been reflected in its consolidated statement of financial position. This proportion is calculated by reference to the Group’s participation as a percentage of each syndicate's total capacity for each underwriting year of account.

Subsidiaries' accounting policies are generally consistent with the Group’s accounting policies. Where they differ, adjustments are made on consolidation to bring the subsidiaries accounting policies in line with that of the Group.

Associates

Investments in which the Group has significant influence over the operational and financial policies of the investee, are recognised at cost and thereafter accounted for using the equity method. Under this method, the Group records its proportionate share of income or loss from such investments in its consolidated statement of comprehensive income for the period. Adjustments are made to associate accounting policies, where necessary, in order to be consistent with the Group's accounting policies.

Foreign currency

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities' operations are conducted (the 'functional currency'). The functional currency is U.S. dollars for all of the Group's entities, other than the Group's Australian entities, which have a functional currency of Australian dollars. On this basis, the Group's consolidated financial statements are presented in U.S. dollars (the 'presentation currency').

Transactions and balances

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are revalued at period end exchange rates. The resulting exchange differences on revaluation are recorded in profit or loss within net foreign exchange gains (losses) in the consolidated statement of comprehensive income. Non-monetary assets and liabilities denominated in a foreign currency are carried at historic rates. Non-monetary assets and liabilities carried at estimated fair value and denominated in a foreign currency are translated at the exchange rate at the date the estimated fair value was determined.

Foreign operations

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate on the balance sheet date;
- income and expenses are translated at average exchange rates for the period; and
- all resulting foreign exchange differences are recognised in other comprehensive income, and as a separate component of shareholders' equity.

On disposal of foreign operations, cumulative exchange differences previously recognised in other comprehensive income are recognised in profit or loss as part of the gain or loss on disposal.

Insurance contracts issued and reinsurance contracts held

Classification

Insurance contracts issued are those that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Contracts that have a legal form of insurance risk but do not transfer significant insurance risk are classified as investment contracts and follow financial instrument accounting under IFRS 9. The Group does not issue any contracts with direct participation features.

In the normal course of business, the Group uses reinsurance to mitigate its risk exposures. A reinsurance contract held transfers significant insurance risk if it transfers substantially all the insurance risk resulting from the insured or reinsured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

All references to insurance contracts in these consolidated financial statements apply to insurance contracts issued and reinsurance contracts held, unless specifically stated otherwise.

Level of aggregation

Insurance contracts issued

Insurance contracts that are subject to similar risks and that are managed together are classified into a portfolio of insurance contracts. Each portfolio of insurance contracts is then further disaggregated into annual cohorts, and each annual cohort is classified into three IFRS 17 groups of contracts for recognition and measurement purposes based on their expected profitability:

- a group of contracts that are onerous at initial recognition;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous; or
- a group of the remaining contracts in the portfolio.

These three groups represent the level of aggregation at which insurance contracts issued are initially recognised and measured. The classification of insurance contracts into such groups is not subsequently reconsidered once determined for a particular annual cohort.

Reinsurance contracts held

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Group aggregates reinsurance contracts held within annual cohorts into:

- a group of contracts for which there is a net gain at initial recognition;
- a group of contracts for which at initial recognition there is no significant possibility of a net gain arising subsequently; and
- a group of the remaining contracts in the portfolio.

For some groups of reinsurance contracts held, a group can comprise a single contract, which is considered the lowest unit of account.

Initial recognition

An insurance contract issued by the Group is recognised at the earliest of:

- the beginning of the coverage period (i.e. the period during which the Group provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; or
- for a group of onerous contracts, when the group becomes onerous.

Groups of reinsurance contracts held are initially recognised at the earliest of:

- the beginning of the coverage period of the group of reinsurance contracts held; or
- the date of recognising an onerous group of underlying insurance contracts issued if the related reinsurance contract held was entered into at or before that date.

The recognition of a group of reinsurance contracts held that provide proportional or quota share coverage is delayed until the date that any underlying insurance contracts issued are initially recognised.

Insurance contracts issued and reinsurance contracts held that were acquired in a business combination, or a portfolio transfer, are accounted for as if they were entered into at the date of acquisition or transfer.

Insurance contracts issued are initially added to the relevant groups of insurance contracts in the reporting period in which they meet the recognition criteria, subject to the annual cohorts' restriction. Composition of the groups is not reassessed in subsequent periods.

Measurement applying the PAA measurement model

PAA eligibility

The Group uses the PAA to simplify the measurement of groups of insurance contracts issued and reinsurance contracts held. The Group considers that it is eligible to apply the PAA measurement model to its groups of contracts (within a given portfolio of insurance contracts) where the measurement of the LRC or ARC is not reasonably expected to differ materially from that calculated under the GMM.

The Group does not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the FCF that would affect the measurement of the LRC or ARC during the period before a claim is incurred. Variability in the FCF increases with, for example, the length of the coverage period of the group of contracts.

For the accounting periods covered by these financial statements, the Group has determined that all groups of insurance contracts underwritten in respect of those accounting periods are eligible for the PAA.

Contract boundary

The measurement of a group of insurance contracts issued or reinsurance contracts held includes all of the cash flows within the boundary of each contract in the group. The contract boundary is reassessed at each reporting period to include the effect of change in circumstances on the Group's rights and obligations, and may change over time.

Cash flows are within the boundary of an insurance contract issued if they arise from substantive rights and obligations that exist during the period, through which the Group can compel the policyholder to pay premiums, or the Group has substantive obligations to provide the policyholder with insurance coverage or other services. A substantive obligation to provide services ends when:

- the Group has the practical ability to reassess the risks of the particular policyholder, and as a result can set a price or level of benefits that fully reflects those risks; or
- the Group has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract, and as a result can set a price or level of benefits that fully reflects the risks of the portfolio; and
- the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

The reassessment of risk considers only risks transferred from policyholders to the Group, which may include both insurance and financial risk, but excludes expense risk.

Cash flows outside of the insurance contract boundary relate to future insurance contracts issued and are recognised only when those contracts meet the recognition criteria.

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer, or has a substantive right to receive services from the reinsurer. A substantive right to receive services from the reinsurer ceases when the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

Cash flows that are not directly attributable to a portfolio of insurance contracts are recognised in other operating expenses as incurred.

Fulfilment cash flows within the contract boundary

The FCF are the current estimates of the future cash flows within the contract boundary of a group of insurance contracts that the Group expects to collect from premiums and pay out as claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows:

- are based on an unbiased probability weighted mean of the full range of possible outcomes;
- are determined from the perspective of the Group, provided the estimates are consistent with observable market prices for market variables; and
- reflect conditions existing at the measurement date, including, where appropriate, expected credit losses from policyholders and intermediaries.

The Group may estimate certain FCF at the portfolio level, or a higher level where appropriate, and then allocate such estimates to groups of insurance contracts using a reasonable and consistent method.

The Group uses consistent assumptions to measure the estimates of the present value of future cash flows for a group of reinsurance contracts held with the groups of underlying insurance contracts issued.

In the measurement of reinsurance contracts held, the probability weighted estimates of the present value of future cash flows include potential credit losses, and potential disputes with the reinsurer to reflect the non-performance risk of the reinsurer.

The Group's insurance contracts issued and reinsurance contracts held that generate cash flows in a foreign currency are treated as monetary items and are revalued at period end exchange rates.

Discounting

The estimates of FCF within the LIC and AIC are adjusted using current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent they are not already included within the cash flows. The discount rates reflect the characteristics of the cash flows arising from each group of insurance contracts, including the timing, currency, and liquidity of the cash flows. The initial impact of discounting is included within the Group's insurance service result. The effect of unwinding the impact of discounting, together with the effect of any changes in discounting assumptions applied, are both included within the Group's finance income or expense. The Group has not identified any significant financing component in the LRC or the ARC, and does not adjust these balances to reflect the time value of money and the effect of financial risk.

Risk adjustment for non-financial risk

An explicit risk adjustment for non-financial risk is estimated separately from the discounted FCF. For contracts measured under the PAA, unless facts and circumstances indicate that a group of contracts is onerous, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the LIC. The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows. It reflects the compensation the Group requires for bearing uncertainty about the amount and timing of the cash flows from non-financial risk as the Group fulfils its insurance contracts issued. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of non-financial risk being transferred by the Group to the reinsurer. Methods and assumptions used to determine the risk adjustment for non-financial risk are discussed both below and within the risk disclosures section.

Insurance acquisition cashflows

Insurance acquisition cash flows arise from the cost of selling, underwriting, and initiating a group of insurance contracts (either issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. The Group uses a systematic and rational method to:

- allocate insurance acquisition cash flows that are directly attributable to a group of insurance contracts:
  - to that group of insurance contracts; and
  - to groups of insurance contracts that include insurance contracts issued that are expected to arise from the renewal of the insurance contracts issued in that group.
- allocate insurance acquisition cash flows that are directly attributable to a specific portfolio of insurance contracts, but which are not directly attributable to a specific group of insurance contracts within that portfolio, to all groups within that particular portfolio.

Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognised in the consolidated statement of financial position, a separate asset for insurance acquisition cash flows may be recognised for each related group. The asset is then derecognised when the insurance acquisition cash flows are included in the initial measurement of the related group of insurance contracts. The amortisation of insurance acquisition cash flows is based on the passage of time over the relevant coverage period.

The Group does not generally pay or incur significant insurance acquisition cash flows before a related group of insurance contracts is recognised in the statement of financial position. No asset for insurance acquisition cash flows has been recognised at any point during the accounting periods covered by these financial statements.

Initial measurement of insurance contracts issued applying the PAA

For a group of insurance contracts that is not onerous at initial recognition, the carrying amount of the LRC is measured with reference to the premiums received on initial recognition minus any insurance acquisition cash flows allocated to the Group at that date, and adjusted for any amounts arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the Group.

The Group assumes that no contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. Where this is not the case, the Group performs additional analysis to determine if a net cash outflow is expected from the contract. On initial recognition of an onerous group of insurance contracts, the Group recognises an insurance service expense for the net cash outflows, and an onerous loss component is established in the LRC reflecting the losses recognised.

Subsequent measurement of insurance contracts issued applying the PAA

The carrying amount of a group of insurance contracts issued is the sum of the LRC and the LIC.

The Group measures the carrying amount of the LRC at the end of each reporting period. The LRC includes:

- any premiums received less amounts recognised as insurance revenue;
- less insurance acquisition cash flows paid plus amortisation of any insurance acquisition cash flows recognised as insurance service expense in the period; and
- less any non-distinct investment components paid or transferred to the LIC.

Groups of insurance contracts that were not onerous at initial recognition can subsequently become onerous if facts and circumstances change during the coverage period.

If a group of insurance contracts becomes onerous, or facts and circumstances indicate that the expected loss of an onerous group during the remaining coverage period has increased, the Group increases the carrying amount of the LRC by the relevant amount, with the increase recognised within insurance service expenses. The relevant amount is determined as the additional amount which would result in the net liability for the relevant onerous group being equal to the expected net outwards FCF. This is equivalent to adjusting the LRC to equal the liability that would be determined by applying the GMM valuation requirements. If the expected loss in respect of an onerous group of contracts decreases, then a corresponding reduction to the LRC is recognised within insurance service expenses. The expected loss in respect of an onerous group is reassessed at the end of each reporting period. The Group amortises the amount of the loss component within the LRC by decreasing insurance service expenses. Consistent with the basis applied for insurance revenue above, the loss component is amortised based on the passage of time over the remaining coverage period of the onerous group of contracts, until the loss component is reduced to nil. The equivalent basis is also applied to any relevant reinsurance recovery component.

The Group measures the carrying amount of the LIC at the end of each reporting period.

The Group recognises the LIC for a group of insurance contracts as the amount of FCF relating to the incurred claims that have not yet been paid, including claims that have been incurred but not yet reported, together with the associated expenses, including all claims handling expenses that relate to incurred claims which have not yet been paid. The FCF are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk.

Initial measurement of reinsurance contracts held applying the PAA

The Group measures a group of reinsurance contracts held on the same basis as a group of insurance contracts issued, with adaptations to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

On initial recognition of a group of reinsurance contracts held, the Group measures the ARC at the amount of ceding premiums paid on initial recognition, minus commission income received.

For a group of reinsurance contracts held which cover onerous underlying insurance contracts issued, the Group establishes a loss-recovery component of the ARC. This results in a gain or loss within amounts recoverable from reinsurer to off-set the losses or gains recognised on the underlying onerous insurance contracts issued:

- on recognition of onerous underlying insurance contracts issued, if the reinsurance contracts held covering those insurance contracts is entered into before, or at the same time, as those insurance contracts issued are recognised; and
- for changes in FCF of the group of reinsurance contracts held relating to future services that results from changes in FCF of the onerous underlying insurance contracts issued.

Subsequent measurement of reinsurance contracts held applying the PAA

The carrying amount of a group of reinsurance contracts held at the end of the reporting period is the sum of the ARC and the AIC.

The Group measures the carrying amount of the ARC and the AIC at the end of each reporting period:

- the ARC includes reinsurance premiums paid, less amounts recognised as an allocation of reinsurance premium; and
- the AIC includes reinsurance recovery cash flows received from reinsurers during the period, less any FCF amounts still to be recovered from reinsurers.

Where the Group has established a loss-recovery component, the Group amortises the amount of the loss recovery component within the ARC by decreasing the allocation of recoverables from reinsurers. The loss-recovery component is amortised based on the passage of time over the remaining coverage period of the onerous group of reinsurance contracts held, until the loss recovery component is reduced to nil.

The Group measures the carrying value of the AIC at the end of each reporting period.

The Group recognises the AIC for a group of reinsurance contracts held at the amount of the FCF relating to the claims recoverable, less any amounts already recovered. Any expenses allocated to groups of reinsurance contracts held are presented within the AIC. The FCF are measured at the reporting date using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk.

Derecognition and modification under the PAA

The Group derecognises an insurance contract issued or a reinsurance contract held when it is extinguished (i.e. when the specified obligations in the contract expire, or are discharged, or cancelled) or the contract is modified and certain additional criteria are met.

When an insurance contract issued or reinsurance contract held is modified as a result of an agreement with a counterparty, or due to a change in regulations, the Group treats changes in the cash flows caused by the modification as a change in the estimate of the FCF, unless the conditions for derecognition of the original contract are met. The Group derecognises the original contract and recognises the modified contract as a new contract if any of the following conditions are present:

a. If, based on the modified terms, the Group would have concluded at the inception of the contract that it:
    - was not within the scope of IFRS 17;
    - results in different separable components that would be outside the scope of IFRS 17 if they were separate contracts;
    - results in a substantially different contract boundary; or
    - belongs to a different group of insurance contracts issued or reinsurance contracts held.

b. If the modification means that the contract no longer meets the PAA eligibility criteria.

When an insurance contract is derecognised, adjustments made to the FCF are recorded within profit or loss as follows:

- if the insurance or reinsurance contract is extinguished, any net difference between the derecognised part of the LRC of the original contract, and any other cash flows arising from the extinguishment is recorded within profit or loss;
- if the insurance or reinsurance contract is transferred to a third party, any net difference between the derecognised part of the LRC of the original contract and the premium charged by the third party is recorded within profit or loss; and
- if the original contract is modified, resulting in its derecognition, any net difference between the derecognised part of the LRC and the premium the Group would have charged had it entered into a contract with equivalent terms to the new contract at the date of contract modification, less any additional premium charged for the modification is recorded within profit or loss.

Presentation within the financial statements

Portfolios of insurance contracts issued, and portfolios of reinsurance contracts held, that are assets, and those that are liabilities, are presented separately in the consolidated statement of financial position.

The Group disaggregates amounts recognised in the consolidated statement of comprehensive income into (a) an insurance service result and (b) insurance finance income and expense.

The Group disaggregates changes in the risk adjustment for non-financial risk between the insurance services result (which represents the change related to non-financial risk), and insurance finance income or expenses (which represents the effect of the time value of money and changes in the time value of money).

Income and expenses from reinsurance contracts held are presented separately from the income and expenses on insurance contracts issued.

Insurance revenue and insurance service expenses exclude any non-distinct investment components.

Insurance revenue

Insurance revenue from groups of insurance contracts issued is the amount of expected premiums net of ceding commission payable. Expected premiums exclude any investment components.

Insurance revenue is recognised based on the passage of time over the coverage period, except where the period of risk differs significantly from the contract period. In this instance, insurance revenue is recognised on the basis of the expected timing of the related incurred insurance service expenses. For the current periods presented, all insurance revenue has been recognised on the basis of the passage of time.

The amount of insurance revenue recognised in the period reflects the provision of insurance services and the corresponding consideration the Group expects to be entitled to in exchange for those services.

Insurance service expenses

Insurance service expenses arising from insurance contracts issued are recognised as they are incurred. They exclude the repayment of non-distinct investment components and comprise the following items:

- incurred claims, net of inwards reinstatement premiums, and net of the initial discount on incurred claims;
- adjustments to the LIC (including the risk adjustment) that do not arise from the effects of the time value of money, financial risk and changes therein;
- amortisation of insurance acquisition cash flows based on the passage of time over the relevant coverage period;
- other directly attributable insurance service expenses, including an allocation of fixed and variable overhead costs; and
- losses on onerous contracts and the reversal of such losses.

Expenses not meeting the above criteria are included in other operating expenses in the consolidated statement of comprehensive income.

Allocation of reinsurance premium and amounts recoverable from reinsurers

The Group presents separately on the face of the consolidated statement of comprehensive income the allocation of reinsurance premiums, and amounts recoverable from reinsurers.

The allocation of reinsurance premiums under each group of reinsurance contracts held is the amount of expected reinsurance premium payments net of commission income receivable. Expected reinsurance premium payments exclude any investment components.

The Group recognises the allocation of reinsurance premium based on the passage of time over the relevant coverage period of the reinsurance contract.

Amounts expected to be recovered from reinsurers are recognised as they are incurred. The Group uses assumptions to measure the estimates of the future cash flows for a group of reinsurance contracts held that are consistent with the underlying group of insurance contracts issued. Reinsurance cash flows that are contingent on claims incurred by the underlying insurance contracts issued are therefore included as part of the cash flows that are expected to be reimbursed under the relevant reinsurance contracts held.

The amounts expected to be recovered from reinsurers include the effect of any risk of non-performance by the issuer of the reinsurance contract.

For a group of reinsurance contracts held covering onerous underlying insurance contracts issued, the loss recovery component and the reversal of such loss recovery components are included as amounts recoverable from the reinsurer.

Finance income or expenses from insurance contracts issued and reinsurance contracts held

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts issued, or reinsurance contracts held, arising from the effect of the time value of money, financial risk and changes therein. These include:

- unwind of the initial discount (i.e. interest accreted on the LIC); and
- the effect of changes in interest rate assumptions.

The Group has elected to include insurance finance income and expenses within the consolidated statement of comprehensive income and does not disaggregate these between profit and loss and OCI.

Non-distinct investment components

The Group identifies the non-distinct investment component of an insurance contract by determining the amount that the Group would be required to repay to a policyholder in all circumstances, regardless of whether an insured event occurs. The receipt of this deposit component and the subsequent repayment do not relate to insurance services. Non-distinct investment components are therefore excluded from insurance revenue and insurance service expenses, and are considered as a settlement of an insurance contract liability.

Financial instruments

Financial assets

On initial recognition, a financial asset is classified as either measured at amortised cost, FVTPL or FVOCI. The classification is dependant on the Group's business model for managing the financial asset, and the contractual terms of the cash flows.

Financial assets are classified as measured at amortised cost if they are held to collect contractual cash flows, and where those cash flows represent solely payments of principal and interest.

Financial assets are classified as measured at FVOCI if they are held to both collect contractual cash flows and sell, and where those cash flows represent solely payments of principal and interest.

All financial assets not classified as measured at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets in this FVTPL category are those that are managed in a fair value business model, or that have been designated as FVTPL by management upon initial recognition.

Financial assets are not reclassified subsequent to their initial recognition, unless the Group changes its business model for managing those financial assets, in which case the affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated statement of financial position at amortised cost and include cash in hand, deposits held on call with banks, and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Interest income earned on cash and cash equivalents is recognised by applying the effective interest rate method. The carrying value of accrued interest income approximates estimated fair value due to its short-term nature and high liquidity.

Investments

The Group's business model emphasises the preservation of capital and the provision of sufficient liquidity for the prompt payment of claims, in conjunction with providing a stable income stream as far as possible. Management reviews the composition, duration and asset allocation of the investment portfolio regularly to respond to changes in interest rates, and other market conditions.

Investments are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of investments are recognised on the trade date, being the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures financial assets held at FVTPL at their fair value on acquisition. Transaction costs in respect of financial assets carried at FVTPL are expensed in profit or loss as they are incurred. Financial assets held at FVTPL are subsequently measured at their fair value.

The table below shows the classification categories of the Group's investment portfolio.

Investments	Classification	Reason
Fixed maturity securities	FVTPL	Mandatory - portfolio is managed at fair value
Private investment funds	FVTPL	Mandatory - portfolio is managed at fair value
Hedge funds	FVTPL	Mandatory - portfolio is managed at fair value
Index linked securities	FVTPL	Mandatory - portfolio is managed at fair value

The Group's investment portfolio includes quoted and unquoted investments. The fair values of the investments are determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Unrealised gains or losses from changes in the fair value of investments are recognised in profit or loss within net investment return. Interest income is recognised on the effective interest rate method and recognised in profit or loss within net investment return. The carrying value of accrued interest receivable approximates fair value due to its short-term nature and high liquidity.

Investments are derecognised when the Group has transferred substantially all of the risks and rewards of ownership or when the rights to receive cash flows from the asset has expired, with any realised gains or losses recognised in profit or loss within net investment return.

Derivatives

Derivatives are classified as financial assets or liabilities at FVTPL. They are initially recognised at fair value on the date a contract is entered into, the trade date, and are subsequently carried at fair value. Derivative instruments with a positive fair value are recorded as derivative financial assets and those with a negative fair value are recorded as derivative financial liabilities.

Derivative financial instruments include exchange-traded future and option contracts, forward foreign currency contracts, interest rate swaps, credit default swaps, and interest rate swaptions. They derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity risk, credit risk, and market risk. Estimated fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors. Changes in the estimated fair value of derivative instruments are recognised in profit or loss within net investment return. The Group does not currently hold any derivatives classified as hedging instruments. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates, and the discount rate used is an appropriate market rate.

Derivative financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only to the extent there is a legally enforceable right of offset, and there is an intention to settle on a net basis, or to realise the assets and liabilities simultaneously. Derivative financial assets and liabilities are derecognised when the Group has transferred substantially all of the risks and rewards of ownership, or the liability is discharged, cancelled or expired, with any realised gains or losses recognised in profit or loss within net investment return.

Other receivables

Other receivables includes trade receivables and contract assets. Trade receivables that do not have a significant financing component are measured on initial recognition at their fair value, which is typically their transaction price, and are subsequently measured at amortised cost using the effective interest method, less an expected credit loss allowance where applicable. The other receivables held by the Group are short term in nature.

Impairment

The Group applies the simplified approach to measuring ECL, which uses a lifetime ECL for all receivables and contract assets (other than those recognised under IFRS 17). The lifetime ECL is measured from the initial recognition of trade receivables and contract assets. The Group calculates the lifetime ECL using three main components: a probability of default, a loss given default and the exposure at default (collectively the expected loss rates).

To measure the lifetime ECL, receivables and contract assets have been grouped based on shared credit risk characteristics. The expected loss rates are based on the payment profiles over a three-year period prior to 31 December 2023 and the corresponding credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information based on macroeconomic factors affecting the ability to collect receivables.

Financial liabilities

Other payables

Other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within 30 to 60 days of recognition. Other payables are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest method.

Long-term debt

Long-term debt is recognised initially at fair value, net of transaction costs incurred. Thereafter it is measured at amortised cost using the effective interest method. Derecognition occurs when the obligation has been extinguished. The difference between the carrying amount that has been extinguished and the consideration paid, is recognised within the profit or loss.

Intangibles assets

The Group's intangible assets comprise indefinite life intangible assets, and internally generated intangible assets.

The Group's indefinite life intangible assets comprise syndicate participation rights and goodwill. The cost of syndicate participation rights and goodwill acquired in a business combination is their fair value as at the date of acquisition. Additional syndicate participation rights may be purchased from time to time and are recorded at the cost on the date of the relevant syndicate capacity auction. As a result of their anticipated ability to continue to generate cash flows for the Group on a long-term basis, goodwill and syndicate participation rights are considered to have an indefinite useful life, and are not amortised. They are carried at cost less any accumulated impairment losses. Intangible assets with an indefinite useful life are tested annually for impairment at the CGU level by comparing the net present value of the future cash flow stream of the CGU to the carrying value of the net assets of the CGU, including the related intangible assets. The useful life of an indefinite life intangible asset is reviewed annually, to determine if the assessment that it has an indefinite life continues to be supportable.

Internally generated intangible assets represent directly attributable costs incurred in the development phase of implementing a cloud based software to support the Group's target operating model. An internally generated intangible asset is recognised if it can be demonstrated that there is an intent, available resources, and technical feasibility to complete the intangible asset so that it is available for use, and that it will generate probable future economic benefits. The costs must be capable of being measured reliably. Such intangible assets are carried at cost less any accumulated impairment losses. Intangible assets not yet available for use are tested annually for impairment at the CGU level by comparing the net present value of the future cash flow stream of the CGU to the carrying value of the net assets of the CGU, including the related intangible assets.

Internally generated intangible assets available for use are considered to have a finite life. Applying the cost model, intangible assets with finite lives are amortised over their estimated useful economic life, and assessed for impairment whenever there are indicators of impairment.

The estimated useful lives and amortisation period of the internally generated intangibles is estimated to be 7 years, and will be amortised using the straight-line method. No residual value has been assumed on these intangibles. The amortisation for these internally generated intangibles are recognised within other operating expenses.

Other income

Other income is measured based on the consideration specified in a contract and excludes amounts collected on behalf of third parties.

Nature of services

The table below details the type of services from which the Group derives its other income.

Services	Nature, timing of satisfaction of performance obligation and significant payment terms
LCM underwriting fees	The Group recognises underwriting fees over the underwriting cycle based on the underlying exposure of the covered contracts. Underwriting fees are received on or before the collateral funding date, which is prior to commencement of the underwriting cycle.
LCM profit commission	The Group recognises profit commission following the end of the underwriting cycle based on the underlying performance of the covered contracts and as collateral is released. Profit commissions may only be received once the profit commission hurdle has been met.
LSL consortium management fees	The Group recognises consortium fees over the risk period based on the underlying exposure of the covered contracts. Consortium fees are received quarterly.
LSL consortium profit commission	The Group recognises profit commission in line with the underlying performance of covered contracts once the year of account closes, which is also when the profit commissions are received.
LSL managing agency fees	The Group recognises managing agency fees in line with the services provided in respect of each underwriting year of account. Managing agency fees are received quarterly.
LSL managing agency profit commission	The Group recognises profit commission on open years of account when measurement is highly probable. Profit commissions are received once the year of account closes.
LSL coverholder fee income	The Group recognises coverholder fee income in line with services provided. Coverholder fee income is received quarterly.

Property, plant and equipment

Property, plant and equipment is carried at historical cost, less accumulated depreciation, and any impairment in value. Depreciation is calculated to write off the cost over the estimated useful economic life on a straight-line basis as follows:

IT equipment	33% per annum
Office furniture and equipment	20% to 33% per annum
Leasehold improvements	20% per annum

Indicators of impairment, together with the assets' residual values, useful lives, and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant or equipment is derecognised on disposal, or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses on the disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount of the asset, and are included in the consolidated statement of comprehensive income. Costs for repairs and maintenance are charged to profit or loss as incurred.

Leases

The Group assesses whether a contract is, or contains, a lease, at the inception of the contract for all contracts that have been entered into or modified on or after 1 January 2019. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The lease liability is initially measured at the present value of the lease payments that are not paid at the lease commencement date. Lease payments are discounted using the rate implicit in the lease, if readily determinable, or at the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date of the lease; or
- payments in respect of purchase options, lease termination options, or lease extension options that the Group is reasonably certain to exercise.

The lease liability is subsequently measured by increasing the lease carrying amount to reflect the interest on the lease liability using the effective interest rate method, and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability and the related right-of-use asset whenever:

- the lease term changes as a result of the Group changing its assessment of whether it will exercise a purchase, extension, or termination option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate, or a change in expected payment under a guaranteed residual value, in which case the lease liability is re-measured by discounting the revised lease payments using the initial discount rate; or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The right-of-use asset is initially measured at cost, which comprises the initial measurement of the corresponding lease liability adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred, and an estimate of any costs to be incurred at expiration of the lease agreement.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and any impairment losses. Straight-line depreciation is calculated from the commencement date of the lease to the earlier of the end date of the lease term, or the useful life of the underlying asset.

The Group applies IAS 36, Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Employee benefits

Equity compensation plans

The Group currently operates an RSS under which nil-cost options have been granted. The fair value of the equity instruments granted is estimated on the date of grant. The estimated fair value is recognised as an expense pro-rata over the vesting period of the instrument, adjusted for the impact of any non-market vesting conditions. No adjustment to vesting assumptions is made in respect of market vesting conditions.

At each reporting date, the Group revises its estimate of the number of RSS nil-cost options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, as an equity-based compensation expense in the consolidated statement of comprehensive income over the remaining vesting period, and a corresponding adjustment is made to other reserves in shareholders' equity.

Upon exercise, the differences between the expense charged to the consolidated statement of comprehensive income and the actual cost to the Group, if any, is transferred to other reserves in shareholders' equity.

Pensions

The Group operates a defined contribution plan. On payment of contributions to the plan there is no further obligation for the Group. Contributions are recognised as employee benefits in the consolidated statement of comprehensive income in the period when the employee's services are rendered.

Tax

The tax charge or credit represents the sum of the tax currently payable and any deferred tax. The tax payable is calculated based on taxable profit for the period using tax rates and tax laws enacted, or substantively enacted, at the year-end reporting date, and any adjustments to tax payable in respect of prior periods. Taxable profit for the period can differ from that reported in the consolidated statement of comprehensive income due to non-taxable income, and certain items which are not tax deductible, or which are deferred to subsequent periods.

Deferred tax is recognised on all temporary differences between the assets and liabilities in the consolidated statement of financial position and their tax base, except when the deferred tax liability arises from the initial recognition of goodwill. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is probable, and are reassessed each year for recognition.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.

At the date equity-based compensation awards are exercised, and where the current estimated fair value of an award exceeds the estimated fair value at the date they were granted, corporation tax on this excess amount is recognised within equity. At the period end date, equity-based compensation awards that have not been exercised, and for which the current estimated fair value of an award exceeds the estimated fair value at the date they were granted, have deferred tax on this excess amount recognised within equity.

Own shares

Own shares include shares repurchased under share repurchase authorisations and held as treasury shares, plus shares repurchased and held in trust, for the purposes of employee equity-based compensation schemes. Own shares are deducted from shareholders' equity. No gain or loss is recognised on the purchase, sale, cancellation, or issue of own shares, and any consideration paid or received is recognised directly in equity.

Risk disclosures

For the year ended 31 December 2023

Risk disclosures: introduction

The Group is exposed to risks from several sources, classified into six primary risk categories. These risks are:

A. Insurance risk;

B. Market risk;

C. Liquidity risk;

D. Credit risk;

E. Operational risk; and

F. Strategic risk.

The most significant risk to the Group is considered to be insurance risk. The primary objective of the Group's ERM framework is to ensure that the capital resources held are matched to the risk profile of the Group, and that the balance between risk and return is considered as part of all key business decisions. The Group has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Group's appetite for risk will vary from time to time to reflect the potential risks and returns that present themselves. However, protecting the Group's capital and maximising risk-adjusted returns for investors over the long term remain constant elements of the Group's strategy. The risk appetite of the Group is central to how the business is run and permeates into the risk appetites that the individual operating entity boards of directors have adopted. These risk appetites are expressed through detailed risk tolerances at both a Group and an operating entity level. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Group and its entities are prepared to expose to certain risks.

The Board of Directors is responsible for setting and monitoring the Group's risk appetite and tolerances, whereas the individual entity boards of directors are responsible for setting and monitoring entity level risk tolerances. All risk tolerances are subject to at least an annual review and consideration by the respective boards of directors. The LHL Board and individual entity boards of directors review actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on a monthly basis, management assesses the modelled potential catastrophe losses against the risk tolerances and ensures that risk levels are managed in accordance with them.

Emerging risks

Climate change

The Group is exposed to both climate change-related risks and opportunities. The two major categories of risk being transition risk and physical risk.

Transition risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputation risk. Physical risks are those relating to the physical impacts of climate change which can be acute (those from increased frequency and severity of climate-related events) or chronic (due to longer-term shifts in climate patterns). As a (re)insurance company, the Group is more significantly affected by physical risk through its potential exposure to acute and chronic climate change. The potential financial impact from these climate-related risks is assessed through scenario testing and mitigated by the Group's strategic and risk management decisions around managing these risks. A risk radar has been prepared to illustrate the risks identified and the likelihood and magnitude of these risks; this diagram can be found on page 55. The risk assessment also considers the products currently offered by the Group and how these might change over time during the transition to a lower carbon economy. A table summarising potential opportunities, their time frame, likelihood and magnitude is included on page 57. The Group's current assessment of risk in relation to climate change is discussed in more detail within the TCFD report on pages 49 to 70.

The Group's process in identifying, assessing and managing climate risk with respect to insurance risk, investment risk (a component of market risk) and business plan risk (a component of strategic risk) is discussed further below in our risk disclosures.

Geopolitical conflict

We continue to monitor our loss exposure with regards to the ongoing conflict in the Ukraine and Russia, which remains a complex and fluid situation. With the increased tensions in the Middle East, focus has also been on monitoring our exposures in this area and seeking to ensure it remains within risk tolerance and expectations. As geopolitical risks can change and evolve rapidly, these are factors that we carefully consider in our underwriting decisions. Where appropriate, thematic reviews are performed to provide a more detailed analysis of the risk and potential impact.

Inflation risk

Both UK and worldwide inflation measures have increased significantly during the period following the COVID-19 pandemic. Whilst the Group has already been monitoring inflation, macro-economic factors, together with the actions of central banks and the views of economists, indicate that a period of sustained high inflation is likely. On this basis, inflation is now an increased focus for management and those charged with governance at both the Board of Directors and the appropriate committees.

OECD global minimum tax and Bermuda corporate income tax

Management continue to closely monitor the progress of the legislative process in the jurisdictions in which it operates. Further details are outlined in note 14.

Cyber risk

It is widely recognised that the current increasing geopolitical risks have also increased the risk of cyber attacks. Whilst the Group does not write standalone cyber as a separate class of business, it does have some limited exposure within broader policy coverage of existing classes of business. The Group's main exposure comes from the operational risk of suffering a cyber attack on its systems, the resultant downtime of systems, the expense in getting back up and running and the potential for missed business opportunities during the downtime.

To mitigate this risk the Group has established an information security function which works with a specialist third-party to identify, assess, monitor and manage cyber risk. A robust cyber risk framework has been developed, this includes a range of key risk and performance indicators which are monitored and reported against regularly. A cyber incident response plan has been developed and is tested via a tabletop exercise on an annual basis.

Economic capital models

The Group maintains economic capital models at the LICL, LUK and syndicate levels. These models are primarily focused on insurance risks, however they are also used to model other risks, including market, credit and operational risks. The syndicate models are vetted by Lloyd's as part of its own capital and solvency regulations.

The economic capital models produce data in the form of stochastic distributions for all classes, including non-elemental classes. The distributions include the mean outcome and the result at various return periods, including very remote events. Projected financial outcomes for each insurance class are calculated, as well as the overall portfolio, including diversification credit. Diversification credit arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time.

A. Insurance risk

Insurance risk is the risk that the Group's underwriting, reserving, claims management, or reinsurance decisions and judgements result in a detrimental financial impact to the Group. The Group underwrites worldwide insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Group's exposure in connection with insurance contracts or reinsurance contracts underwritten is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the underwriting cycle. Market conditions are impacted by capacity and recent loss events, and broader economic cycle impacts, amongst other factors. The Group’s underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends, and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses and desired levels of profitability.

The Group considers insurance risk at an individual contract level, at a segment level, at a geographic level, and at an aggregate portfolio level. This ensures that careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The level of insurance risk tolerance per peril is set by the Board and the boards of directors at individual entity level.

A number of controls are deployed by the Group to manage the amount of insurance exposure assumed:

- a rolling strategic plan that helps establish the business goals that the Board of Directors aims to achieve;
- a detailed three-year business plan is produced annually. The plan is approved by the Board of Directors and is monitored, reviewed and updated on an ongoing basis;
- for LSL, the syndicates' business forecasts and business plans are subject to review and approval by Lloyd's;
- economic capital models are used to model risk levels and capital requirements;
- each authorised class has a predetermined normal maximum line structure;
- each underwriter has a clearly defined limit of underwriting authority;
- the Group and individual operating entities have predetermined tolerances on probabilistic and deterministic losses of capital for certain single events, which are monitored on a regular basis;
- pricing and aggregation models are used to assist with the underwriting process; and
- reinsurance is purchased to mitigate both frequency and severity of losses on a facultative, excess of loss treaty or proportional treaty basis.

Some of the Group's business provides coverage for natural catastrophes (e.g. hurricanes, earthquakes, wildfires and floods) and is subject to potential seasonal variation and the effects of climate change. A proportion of the Group’s business is exposed to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact the Group’s loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Group also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, tsunamis, droughts, floods and tornadoes, from risk losses throughout the year and from war, terrorism and political risk, and other events.

Climate change may expose the Group to the risk of heightened severity and frequency of weather-related losses. Climate-related risks are identified and assessed as part of the usual risk identification and management process which includes but is not limited to: discussions with risk owners and with subject matter experts across the Group, discussions at the Emerging Risk Forum, and the ESG Co-ordination Committee.

Climate-related risks specific to the (re)insurance portfolios are identified and assessed as part of the day-to-day underwriting process by individual underwriters in their analysis of specific risk information, and more broadly in the context of the wider portfolio during the individual class of Business Quarterly Review and through the fortnightly RRC meetings. These reviews include: the physical location of assets insured, weather-related perils that have impacted the location and their historical frequency and severity, as well as expected short and long-term changes. The insurance and reinsurance underwriting strategy days assess climate-related risks of both current and anticipated future risks, which include but are not limited to transition risk arising from a decline in the value of assets to be insured, changing energy costs, and liability risks that could arise from climate-related litigation. Physical, transition and liability risks are considered by business segment and geographical location, and the expected impact from the risks identified is considered with respect to both magnitude and timescale.

The Group manages climate risk by using stochastic models from third-party vendors which have a long history of data quality governance. We adapt these models based upon our views of climate risk, as well as our clients' exposure data, to create aggregate loss scenarios. Underwriting guidelines support the underwriting process and provide guidance to assist underwriters in their decision-making. Performance against guidelines is monitored by the regular meetings, Quarterly Business Reviews and related reporting. We have clear tolerances and preferences in place to actively manage exposures, and the Board regularly monitors our PMLs.

The Group accepts risks for periods primarily of one year, which mitigates the potential short-term impacts of climate risk. The Group has the ability to re-evaluate the portfolio on an annual basis and therefore reprice physical risk and reset exposure levels to consider new data regarding the frequency and severity of elemental catastrophe events.

Catastrophe Management

The Group actively monitors risk levels and manages catastrophe risk accumulations using reinsurance and PML based risk tolerances, which are monitored as part of our climate-related risks. The Group's exposures to certain peak zone elemental losses, as a percentage of tangible capital, including long-term debt, are shown below. Net loss estimates are undiscounted before income tax and net of reinstatement premiums and outwards reinsurance on a first occurrence return period basis.

100 year return period estimated net loss[1]		31 December 2023 $m	31 December 2023 % of tangible capital	31 December 2022 $m	31 December 2022 % of tangible capital (Restated)
Zones	**Perils**				
Gulf of Mexico[2]	Hurricane	**300.5**	**16.9**	301.2	18.8
California	Earthquake	**256.0**	**14.4**	248.0	15.5
Non-Gulf of Mexico – U.S.	Hurricane	**237.9**	**13.4**	217.2	13.6
Pan-European	Windstorm	**161.4**	**9.1**	181.2	11.3
Japan	Earthquake	**137.6**	**7.8**	121.6	7.6
Japan	Typhoon	**134.0**	**7.6**	144.5	9.0
Pacific North West	Earthquake	**31.5**	**1.8**	29.5	1.8

1. Estimated net loss balances presented in the table are unaudited.
2. Landing hurricane from Florida to Texas.

250 year return period estimated net loss[1]		31 December 2023 $m	31 December 2023 % of tangible capital	31 December 2022 $m	31 December 2022 % of tangible capital (Restated)
Zones	**Perils**				
Gulf of Mexico[2]	Hurricane	**364.6**	**20.6**	348.0	21.8
California	Earthquake	**311.2**	**17.5**	291.9	18.2
Non-Gulf of Mexico – U.S.	Hurricane	**448.0**	**25.3**	362.5	22.7
Pan-European	Windstorm	**201.2**	**11.3**	218.4	13.6
Japan	Earthquake	**244.1**	**13.8**	172.1	10.8
Japan	Typhoon	**181.2**	**10.2**	180.3	11.3
Pacific North West	Earthquake	**123.0**	**6.9**	137.5	8.6

1. Estimated net loss balances presented in the table are unaudited.
2. Landing hurricane from Florida to Texas.

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. In addition, any modelled loss scenario could cause a larger loss to capital than the modelled expectation from the above return periods.

Insurance revenue geographical split and operating segment

The following table provides an analysis of the Group's insurance revenue by operating segment and geographical location:

For the year ended	31 December 2023 Reinsurance $m	Insurance $m	Total $m	31 December 2022 Reinsurance $m	Insurance $m	Total $m
U.S. and Canada	**339.6**	**269.4**	**609.0**	260.8	206.1	466.9
Worldwide - multi territory	**257.4**	**276.5**	**533.9**	195.9	240.9	436.8
Europe	**62.1**	**83.2**	**145.3**	43.8	75.8	119.6
Rest of world	**55.8**	**175.9**	**231.7**	59.9	143.3	203.2
Total insurance revenue	**714.9**	**805.0**	**1,519.9**	560.4	666.1	1,226.5

I. Reinsurance segment

The Group's reinsurance segment comprises property reinsurance, specialty reinsurance and casualty reinsurance. The property reinsurance portfolio is predominantly written on an excess of loss basis with the 'catastrophe' portfolio exposed to large natural disasters and the 'risk' portfolio exposed to individual, man-made losses such as fire and explosion. The specialty reinsurance portfolio has a mix of exposure, with natural disasters exposing the retrocession portfolio and large, man made risks from complex exposures, such as offshore energy platforms, exposing the marine, energy, terror and aviation portfolios. This product is sold through both excess of loss and proportional reinsurance. Casualty reinsurance is written through quota share reinsurance assuming a mix of general liability and professional lines exposures, predominantly from within the U.S..

II. Insurance segment

The Group's insurance segment is usually written on a direct or facultative basis and comprises aviation insurance, casualty insurance, energy and marine insurance, property insurance and specialty insurance. Within aviation, aviation deductible, aviation hull, aviation liability, aviation war and AV52 are the main exposures. Casualty insurance covers accident and health policies, as well as a small number of consortia arrangements within Lloyd's. Energy insurance covers a variety of energy exposures from upstream and energy construction, downstream processing and storage risks, power generation and energy liability. Marine risks include cargo & specie risks, as well as liability, hull and war. The property insurance account contains a worldwide property exposure with a mix of Fortune 500 business and smaller accounts with exposure in an individual location. Specialty insurance includes political risk, terror and credit exposures and is often written on a multi-year basis.

Reinsurance

The Group, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of losses that may arise from events that could cause unfavourable underwriting results by entering into external outwards reinsurance arrangements. Reinsurance does not relieve the Group of its obligations to policyholders. Under the Group's reinsurance security policy, reinsurers are assessed and approved based on their financial strength ratings, together with other factors. The RSC considers reinsurers that are not rated or do not fall within the predefined rating categories on a case-by-case basis, and may require collateral to be provided to support the reinsurer's obligations. There are specific guidelines for these collateralised contracts. The RSC monitors the Group's reinsurers on an ongoing basis, and formally reviews the Group's reinsurance arrangements at least quarterly. Exposure to the Group's reinsurance counterparties, compared to the Board-approved tolerances, is reported to the Board of Directors on a quarterly basis.

Reinsurance protection is typically purchased on an excess of loss basis, however it may also include ILW covers, or proportional treaty arrangements. The mix of reinsurance cover is dependent on the specific loss mitigation requirements, market conditions, and available capacity. Reinsurance may also be purchased to optimise the risk-adjusted return of the underwriting portfolio. The structure varies between types of peril and sub-class. The Group regularly reviews its catastrophe and other exposures and may purchase reinsurance in order to reduce the Group’s net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. The Group can purchase both facultative and treaty reinsurance with varying cover and attachment points. The reinsurance coverage is not intended to be available to meet all potential loss circumstances. The Group will retain some losses, as the cover purchased is unlikely to transfer the totality of the Group’s exposure. Any loss amount which exceeds the Group's reinsurance programme is retained by the Group. Some parts of the reinsurance programme have limited reinstatements, therefore the number of claims which may be recovered from second or subsequent losses in those particular circumstances is restricted.

Reserving

Estimates of future cash flows to fulfil insurance contracts issued

The Group measures the carrying amount of the LIC and the AIC at the end of each reporting period, being the amount of the FCF. The FCF in respect of the LIC and AIC comprises:

- unbiased probability-weighted best estimates of future cash flows within the boundary of each insurance contract;
- an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows (see interest rate risk section on page 157); and
- a risk adjustment for non-financial risk.

More detail on each of these is considered further in the section below.

Probability-weighted best estimate of future cash flows

In estimating future cash flows, the Group incorporates, in an unbiased way, all reasonable and supportable information that is available at the reporting date. The Group uses internal and external information about past events, current conditions and forecasts of future conditions. The Group's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes.

Cash flows within the boundary of an insurance contract relate directly to the fulfilment of the contract, including those for which the Group has discretion over the amount and timing. These include payments to or on behalf of policyholders and other costs incurred in fulfilling contracts.

Other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads. Where expenses are contract specific these costs are taken directly and aggregated, as required, to groups of insurance contracts. Where expenses are not contract specific (e.g. overheads), these are allocated to groups of insurance contracts in a systematic way.

For the Group's insurance contracts, uncertainty in the estimation of future claims and benefit payments arise primarily from the severity and frequency of claims and uncertainties regarding future inflation rates.

The Group estimates the ultimate costs of settling claims incurred but unpaid at the reporting date, and the value of salvage and other expected recoveries, by reviewing individual claims reported and making allowance for claims incurred but not yet reported. The ultimate cost of settling claims is estimated using a range of loss reserving techniques (the Bornhuetter-Ferguson, loss ratio and chain-ladder methods). Often, actuarial techniques assume that historic claims experience is indicative of future claims development patterns and therefore ultimate claims cost. The ultimate cost of settling attritional losses and large claims is estimated separately for each class of business.

The assumptions used, including loss ratios and future claims inflation, are derived from a combination of historical information and judgement where past trends may not apply in the future and future trends are expected to emerge.

For each nominal fulfilment amount, the timing of future cash flows is determined by applying cash flow assumptions based, where available, on the Group’s historical experience for the given portfolio of contracts. Where there is insufficient historical experience, reliance may be placed on external benchmarks or portfolios which are believed to exhibit similar cash flow characteristics.

Methods used to measure the risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled. The Group estimates an adjustment for non-financial risk separately from all other estimates.

Under the PAA, the risk adjustment for non-financial risk is limited to the LIC and the AIC, with the exception of an onerous contract, where it is implicitly considered in determining the required adjustment to the LRC and ARC. The undiscounted risk adjustment within the LIC and AIC is set with reference to the Group’s reserve risk appetite and aligns with the management margin, which depends on the prevailing uncertainty in the FCF of the LIC and AIC at each reporting date. The management margin is set through a combination of initial expected loss ratio uplifts for IBNR provisions and on a case-by-case basis for individual reported events. This process is overseen by the Reserve and Audit Committees. Given this granular approach, no further allocation of the risk adjustment to groups of insurance contracts is required. The undiscounted risk adjustment is then discounted to allow for the time value of money alongside the wider FCF within the LIC and AIC. Changes in the risk adjustment for non-financial risk are disaggregated into insurance services and insurance financing components in the same way as the best estimate FCF.

The Group estimates that FCF within the net of reinsurance LIC (including the risk adjustment for non-financial risks) correspond to a confidence level of 88% (31 December 2022 – 84%) on an ultimate time horizon.

The risk adjustment for non-financial risk is subject to discounting and the confidence level is inferred for the purpose of disclosure. The inference of the confidence level requires assumptions around the perceived volatility of each portfolio and the aggregation to the overall entity level. These assumptions are set and agreed by Management. Volatility parameters are set with reference to historical internal and external data but may be adjusted at each reporting date to reflect the prevailing environment and associated reserve uncertainties. Given the inference of the confidence level, the Group generally expects this to fall within the range of the 80th-90th percentile. Movements within this range between periods are to be expected due to, for example, specific loss events or a change in the mix of business such as an increase in longer tail casualty business written as has been the case in the current period. The Group would expect to remain within this range, unless there is a change in reserving risk appetite. The Group’s reserve risk appetite and methods used to determine the risk adjustment for non-financial risk and resulting confidence level were not changed for the years ended 31 December 2023 and 2022.

Sensitivity analysis

The following table presents information on how reasonably possible changes in assumptions made by the Group impact the valuation of the net insurance contract liabilities, profit after tax and shareholders' equity. Under the PAA, and given the current amount of the Group's loss component, only the LIC component of insurance contract liabilities and the AIC component of reinsurance contract assets is sensitive to possible changes in insurance risk and interest rate risk variables.

	LIC as at 31 December 2023 $m	Impact on profit after tax and shareholders' equity $m	LIC as at 31 December 2022 $m	Impact on profit after tax and shareholders' equity $m
Insurance contract liabilities	**1,765.9**		1,644.5	
Reinsurance contracts assets	**(430.3)**		(516.2)	
Net insurance contract liabilities	**1,335.6**		1,128.3	
Unpaid claims and expense - 20% increase				
Insurance contract liabilities	**2,119.1**	**(307.9)**	1,973.4	(284.4)
Reinsurance contract assets	**(516.4)**	**72.0**	(619.4)	88.0
Net insurance contract liabilities	**1,602.7**	**(235.9)**	1,354.0	(196.4)

The analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

B. Market risk

Market risk is the risk that decisions, movements, trends, or other factors in financial markets impact the Group in a way that is financially detrimental. The main risks include:

i. Insurance market risk;

ii. Investment risk;

iii. Debt risk; and

iv. Currency risk.

These risks, and the management thereof, are described below.

I. Insurance market risk

Insurance market risk is the risk that factors within either the global insurance market, or the relevant local insurance markets in which the Group operates, have a detrimental financial impact on the Group. The Group is exposed to insurance market risk from several sources, including the following:

- the advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain lines, or across all lines;
- the actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- market events, including unusual inflation in rates, which may result in a limit in the availability of cover, causing political intervention or national remedies;
- failure to maintain broker, binding authority and client relationships, leading to a limited or substandard choice of risks which are inconsistent with the Group's risk appetite;
- changes in regulation including capital, governance or licensing requirements; and
- changes in the geopolitical environment.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Group manages insurance market risk in numerous ways, including the following:

- reviews and amends underwriting plans and outlook as necessary;
- reduces exposure to market sectors where conditions have reached unattractive levels;
- purchases appropriate, cost-effective reinsurance cover to mitigate loss exposures;
- closely monitors changes in premium rates and terms and conditions;
- ensures through continuous regulatory capital management that it does not allow surplus capital to unduly influence underwriting appetite;
- has a collegiate approach towards taking risk, with most authority requiring at least 4 eyes and pre-authorisation peer review;
- reviews all new and renewal business post-underwriting for LSL;
- reviews outputs from the economic capital models to assess up-to-date profitability of classes and sectors;
- holds a fortnightly RRC meeting to discuss risk and reinsurance;
- holds a quarterly UURC meeting to review underwriting strategy; and
- holds regular meetings with regulators.

II. Investment risk

Investment risk is the risk that movements, trends or other factors, within either public or private investment markets, have a detrimental financial impact on the price of securities within the Group's investment portfolio. Movements in investments resulting from changes in prices, interest rates, inflation rates, and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Group's investment portfolio.

Investment guidelines are established by the Investment Committee of the Board of Directors to manage this risk. Investment guidelines set parameters within which the Group's external investment managers must operate. All of the Group's fixed income managers, private investment managers and a portion of our hedge fund portfolio are signatories of the UNPRI, which approximates to 96.7% (31 December 2022 – 93.9%) of the Group's externally managed assets. Important parameters include guidelines on permissible asset classes, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Compliance with guidelines is monitored on a monthly basis. Any adjustments to the investment guidelines are approved by the Investment Committee and the Board of Directors.

The Group's fixed maturity portfolios are managed by external investment managers. The Group also has a diversified low volatility multi-strategy portfolio of hedge funds, credit funds, principal protected products, and private investment funds. The performance of the managers is monitored on an ongoing basis.

Within the Group's investment guidelines are subsets of guidelines for the portion of funds required to meet near-term obligations and cash flow needs following an extreme event. These guidelines add further requirements, including reducing permitted asset classes, higher credit quality, shorter duration, and higher liquidity. The primary objectives for this portion of assets are capital preservation and providing liquidity to meet insurance and other near-term obligations. In addition to cash managed internally, funds held in the investment portfolio to cover this potential liability are designated as the core and core plus portfolios and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core and core plus portfolios are invested in fixed maturity securities, fixed maturity funds, and cash and cash equivalents. The combined core and core plus portfolios may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs.

Assets in excess of those required to be held in the core and core plus portfolios are typically held in the surplus portfolio. The surplus portfolio is invested in fixed maturity securities, principal protected products, derivative instruments, cash and cash equivalents, private investment funds, and hedge funds. In general, the duration of the surplus portfolio is slightly longer than the core or core plus portfolios.

The Group reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of management's risk tolerance levels, an adjustment to the asset allocation may be made to reduce the risks in the portfolio.

The investment portfolio is currently structured to perform similarly in risk-on and risk-off environments. The Group endeavours to limit losses in risk-on, risk-off, and interest rate hike scenarios. The Group models various periods of significant stress in order to better understand the investment portfolio's risks and exposures. The scenarios represent what could, and most likely will, occur (albeit not in the exact form of the scenarios, which are based on historic periods of volatility). The Group also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The Investment Committee oversees a strategic asset allocation study on a bi-annual basis, which assesses the Group's overall strategy and seeks to determine if there is an alternative asset allocation to achieve the highest risk-adjusted return within our risk tolerances. The IRRC meets quarterly to ensure that the Group's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The IRRC also helps further develop the risk tolerances to be incorporated into the ERM framework.

The investment mix of the Group's investment portfolio is as follows:

As at 31 December 2023	Core $m	Core plus $m	Surplus $m	Total $m
• Short-term investments	**3.9**	**16.8**	**53.2**	**73.9**
• Fixed maturity funds	**27.1**	**—**	**—**	**27.1**
• U.S. treasuries	**226.5**	**252.7**	**106.7**	**585.9**
• Other government bonds	**18.7**	**—**	**28.5**	**47.2**
• U.S. municipal bonds	**2.7**	**7.4**	**3.4**	**13.5**
• U.S. government agency debt	**1.7**	**4.6**	**50.8**	**57.1**
• Asset backed securities	**45.2**	**53.3**	**138.2**	**236.7**
• U.S. government agency mortgage backed securities	**41.8**	**38.7**	**36.9**	**117.4**
• Non-agency mortgage backed securities	**—**	**0.6**	**10.9**	**11.5**
• Non-agency commercial mortgage backed securities	**—**	**—**	**21.3**	**21.3**
• Bank loans	**—**	**—**	**142.6**	**142.6**
• Corporate bonds	**307.9**	**367.6**	**260.9**	**936.4**
• Other fixed maturities	**—**	**—**	**9.5**	**9.5**
Total fixed maturity securities	**675.5**	**741.7**	**862.9**	**2,280.1**
Private investment funds	**—**	**—**	**165.6**	**165.6**
Hedge funds	**—**	**—**	**9.9**	**9.9**
Other investments	**—**	**—**	**(0.1)**	**(0.1)**
Total investments	**675.5**	**741.7**	**1,038.3**	**2,455.5**

As at 31 December 2022	Core $m	Core plus $m	Surplus $m	Total $m
• Short-term investments	14.3	6.5	0.7	21.5
• Fixed maturity funds	29.4	—	—	29.4
• U.S. treasuries	251.3	350.0	48.9	650.2
• Other government bonds	13.2	—	25.7	38.9
• U.S. municipal bonds	3.8	15.3	3.5	22.6
• U.S. government agency debt	2.8	22.9	33.3	59.0
• Asset backed securities	29.6	68.3	63.0	160.9
• U.S. government agency mortgage backed securities	11.2	13.9	15.9	41.0
• Non-agency mortgage backed securities	—	1.0	13.0	14.0
• Non-agency commercial mortgage backed securities	—	—	24.2	24.2
• Bank loans	—	—	128.9	128.9
• Corporate bonds	264.7	390.9	96.7	752.3
• Other fixed maturities	—	—	22.0	22.0
Total fixed maturity securities	620.3	868.8	475.8	1,964.9
Private investment funds	—	—	108.1	108.1
Hedge funds	—	—	103.9	103.9
Index linked securities	—	—	28.2	28.2
Other investments	—	—	(0.2)	(0.2)
Total investments	620.3	868.8	715.8	2,204.9

The concentration risk of the Group's fixed maturity securities by country and sector is as follow:

As at 31 December 2023	Financials $m	Industrial $m	Utility $m	Government & Government Agencies $m	Structured[1] $m	Other[2] $m	Total $m
United States	270.6	523.2	18.7	773.5	123.9	20.3	1,730.2
United Kingdom	35.9	17.5	—	1.6	0.3	50.0	105.3
Cayman Islands	—	1.8	—	—	100.7	—	102.5
Canada	26.0	16.2	0.5	18.0	—	0.5	61.2
Jersey	—	0.8	—	—	32.3	—	33.1
France	25.2	2.5	—	—	2.2	—	29.9
Japan	13.4	10.0	—	—	—	—	23.4
Netherlands	6.7	2.3	3.7	—	—	0.4	13.1
Mexico	3.4	6.8	0.4	1.3	—	—	11.9
Singapore	0.3	10.3	0.4	0.5	—	—	11.5
India	1.8	4.5	—	2.9	—	1.3	10.5
Germany	2.7	7.7	—	—	—	—	10.4
Switzerland	9.3	—	—	—	—	—	9.3
Bermuda	—	—	—	1.7	7.0	—	8.7
Finland	8.3	—	—	—	—	—	8.3
Other	23.8	29.5	4.3	21.6	3.1	28.5	110.8
Total fixed maturity securities	427.4	633.1	28.0	821.1	269.5	101.0	2,280.1

1. Structured products excludes any Government structured products.
2. Other includes Lloyd's overseas deposits and short-term investments.

As at 31 December 2022	Financials $m	Industrial $m	Utility $m	Government & Government Agencies $m	Structured[1] $m	Other[2] $m	Total $m
United States	211.3	426.9	18.8	772.6	118.3	20.8	1,568.7
United Kingdom	39.1	11.8	—	1.5	0.7	—	53.1
Cayman Islands	—	—	—	—	47.4	—	47.4
Canada	21.5	14.3	0.5	10.5	—	—	46.8
Jersey	—	—	—	—	25.8	—	25.8
Japan	14.0	9.8	—	—	—	—	23.8
Netherlands	9.3	7.7	3.6	—	—	—	20.6
France	13.9	2.5	—	0.6	2.1	—	19.1
Spain	10.7	—	—	—	—	—	10.7
Switzerland	10.0	0.6	—	—	—	—	10.6
Sweden	8.9	—	—	0.6	—	—	9.5
Mexico	2.8	4.2	0.5	2.0	—	—	9.5
Finland	8.1	—	—	—	—	—	8.1
Qatar	1.6	—	—	5.2	—	—	6.8
Germany	3.6	2.8	—	—	—	—	6.4
Other	19.3	23.6	1.5	18.7	4.8	30.1	98.0
Total fixed maturity securities	374.1	504.2	24.9	811.7	199.1	50.9	1,964.9

1. Structured products excludes any Government structured products.
2. Other includes Lloyd's overseas deposits and short-term investments.

The Group's net asset value is directly impacted by movements in the fair value of investments held. Fair values can be impacted by movements in interest rates, credit ratings, exchange rates, the current economic environment and outlook.

Interest rate risk

(i) Investments

Interest rate risk is the risk that movements within market interest rates, which are typically correlated with the interest rates set by central banks, have a detrimental financial impact on the value of the Group's assets and liabilities. The Group's investment portfolio is mainly comprised of fixed maturity securities and cash and cash equivalents. Fixed maturity funds are overseas deposits held by the syndicates in trust for the benefit of the policyholders in those overseas jurisdictions. They consist of high quality, short duration fixed maturity securities. The fair value of the Group's fixed maturity portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Group's fixed maturity securities would tend to rise and vice versa.

The sensitivity of the price of fixed maturity securities, and certain derivatives, to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Group's fixed maturity and derivative investment portfolio to interest rate movements is detailed below, assuming linear movements in interest rates:

	As at 31 December 2023		As at 31 December 2022	
	$m	%	$m	%
Immediate shift in yield (basis points)				
100	**(39.5)**	**(1.7)**	(34.1)	(1.7)
75	**(29.6)**	**(1.3)**	(25.6)	(1.3)
50	**(19.8)**	**(0.9)**	(17.1)	(0.9)
25	**(9.9)**	**(0.4)**	(8.5)	(0.4)
(25)	**10.0**	**0.4**	9.4	0.5
(50)	**20.0**	**0.9**	18.8	1.0
(75)	**29.9**	**1.3**	28.2	1.4
(100)	**39.9**	**1.8**	37.6	1.9

The Group mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The Group may also manage interest rate risk through the use of interest rate futures and swaptions. The duration of the core portfolio is matched to the modelled duration of the net insurance contract liabilities, within a permitted range. The permitted duration range for the core plus portfolio is between zero and four years, and for the surplus portfolio is between one and five years.

The overall duration for fixed maturity securities, managed cash and cash equivalents and certain derivatives is 1.6 years (31 December 2022 – 1.6 years).

In addition to duration management, the Group monitors VaR to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modelling to capture the cash flows and embedded optionality of the investment portfolio. Securities are valued individually using standard market pricing models. These security valuations serve as the input to risk analytics, including full valuation risk analyses, as well as parametric methods that rely on option-adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. Under normal conditions, the investment portfolio value is not expected to decrease more than the VaR metric listed in the table below 99% of the time over a one-year time horizon. The appropriateness of this measure is considered by the Investment Committee on behalf of the Board of Directors on an annual basis.

The Group's annual VaR calculations are as follows:

	As at 31 December 2023		As at 31 December 2022	
As at 31 December	$m	% of shareholders' equity	$m	% of shareholders' equity - Restated
99th percentile confidence level[1]	**110.0**	**7.3**	111.6	8.4

1. Including the impact of internal foreign exchange hedges.

(ii) Discounting approach on LIC and AIC

The Group's LIC and AIC are discounted on initial recognition and re-measured to current interest rates at each quarter end date and are therefore sensitive to changes in market interest rates.

The Group applies the bottom-up approach when deriving its discount rates for discounting the LIC and AIC. This approach requires the use of an appropriate (liquid) risk-free yield curve plus a specific illiquidity premium above the risk-free yield curve to represent the reduced liquidity of the insurance contract cash flows compared to the observable risk-free rates. The risk-free yields and illiquidity premium are derived using reference data supplied by third parties with management judgement applied where appropriate, in particular in the derivation of the illiquidity premium, which is informed by the implied illiquidity premium of a representative portfolio of corporate bonds determined using the top-down method.

The table below sets out the one, three and five year yield curves (risk-free rate plus illiquidity premium) used to discount the cash flows of insurance contracts issued and reinsurance contracts held for the Group's major currencies:

As at	31 December 2023			31 December 2022		
	1 year	3 years	5 years	1 year	3 years	5 years
USD	**5.33%**	**4.40%**	**4.29%**	5.26%	5.12%	5.11%
GBP	**5.31%**	**4.34%**	**4.14%**	4.54%	5.07%	5.12%
EUR	**4.03%**	**3.21%**	**3.21%**	3.36%	4.06%	4.29%
CAD	**5.23%**	**4.51%**	**4.25%**	5.05%	4.88%	4.84%
JPY	**0.65%**	**0.96%**	**1.24%**	0.17%	1.11%	1.64%
ZAR	**8.92%**	**8.63%**	**9.15%**	7.83%	8.72%	9.49%
AUD	**4.77%**	**4.55%**	**4.76%**	4.00%	4.85%	5.38%

The following table presents information on how reasonably possible changes in the yield curve made by the Group impact the valuation of the net insurance contract liabilities, profit after tax and shareholders' equity. As stated above, under the PAA, and given the current amount of the Group's loss component, only the LIC component of insurance contract liabilities and the AIC component of reinsurance contract assets is sensitive to possible changes in insurance risk and interest rate risk variables.

	LIC as at 31 December 2023 $m	Impact on profit after tax and shareholders' equity $m	LIC as at 31 December 2022 $m	Impact on profit after tax and shareholders' equity $m
Insurance contract liabilities	**1,765.9**		1,644.5	
Reinsurance contracts assets	**(430.3)**		(516.2)	
Net insurance contract liabilities	**1,335.6**		1,128.3	
Yield curves - 1% increase				
Insurance contract liabilities	**1,733.3**	**28.9**	1,616.6	24.4
Reinsurance contract assets	**(422.3)**	**(6.7)**	(506.8)	(8.1)
Net insurance contract liabilities	**1,311.0**	**22.2**	1,109.8	16.3

The analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Price risk

Price risk is the risk that the fair value of the Group's investment portfolio will fluctuate because of changes in market prices (other than those arising from interest rate or foreign exchange rate risk), whether those changes are caused by factors specific to the individual investment or other market factors.

The Group's price risk exposure relates to private investment funds, hedge funds, and index linked securities. Listed investments that are quoted in an active market are recognised at quoted bid price, which is deemed to be the approximate exit price. If the market for the investment is not considered to be active, then the Group establishes fair value using valuation techniques (refer to note 11). This includes comparison to comparable orderly transactions between active market participants, reference to benchmarks or other indices to assess reasonableness, and other valuation techniques that are commonly used by market participants.

A 10% asset price decrease at 31 December 2023 would reduce the value of our private investment funds, hedge funds, and index linked securities by approximately $17.6 million (31 December 2022 – $24.0 million).

Derivative financial instruments

The Group’s investment guidelines permit the investment managers to utilise forward foreign currency contracts to manage foreign currency exposure. These positions are monitored regularly. The Group may also use OTC or exchange-traded managed derivatives to mitigate interest rate risk and foreign currency exposures. The Group principally has exposure to derivatives related to the following types of risks: interest rate risk, foreign currency risk, and credit risk.

The Group currently invests in the following derivative financial instruments:

- futures; and
- forward foreign currency contracts.

The net gains (losses) on the Group's derivative financial instruments recognised in the consolidated statement of comprehensive income are as follows:

As at 31 December 2023	Net realised gains (losses) $m	Net foreign exchange gains $m
Forward foreign currency contracts	—	**1.9**
Total	—	**1.9**

As at 31 December 2022	Net realised (losses) gains $m	Net foreign exchange (losses) gains $m
Interest rate futures	0.1	—
Forward foreign currency contracts	—	(3.0)
Interest rate swaps	(2.4)	0.2
Total	(2.3)	(2.8)

The estimated fair values of the Group's derivative instruments are as follows:

	2023			2022		
As at 31 December	Other investments $m	Other receivables $m	Other payables $m	Other investments $m	Other receivables $m	Other payables $m
Forward foreign currency contracts	**(0.1)**	**2.0**	**(0.7)**	(0.2)	2.5	(0.4)

A. Futures

Futures provide the Group with participation in market movements, determined by the underlying instrument on which the futures contract is based, without holding the instrument itself or the individual securities. This allows efficient and less costly access to the exposure than would be available by the exclusive use of individual fixed maturity and money market securities. Exchange-traded futures contracts may also be used as substitutes for ownership of the physical securities.

All futures contracts are held on a non-leveraged basis. An initial margin is provided, which is a deposit of cash and/or securities in an amount equal to a prescribed percentage of the contract value. The fair value of futures contracts is estimated daily and the margin is adjusted accordingly with unrealised gains and/or losses settled daily in cash and/or securities. A realised gain or loss is recognised when the contract is closed.

Futures contracts expose the Group to market risk to the extent that adverse changes occur in the estimated fair values of the underlying securities. Exchange-traded futures are, however, subject to a number of safeguards to ensure that obligations are met. These include the use of clearing houses (thus reducing counterparty credit risk), the posting of margins and the daily settlement of unrealised gains and losses. The amount of credit risk is therefore considered low. The investment guidelines restrict the maximum notional futures position as a percentage of the investment portfolio's estimated fair value.

B. Forward foreign currency contract

A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a defined rate. The Group may utilise forward foreign currency contracts to gain exposure to a certain currency or market rate, to manage the impact of fluctuations in foreign currencies on the value of its foreign currency denominated investments, debt, insurance-related currency exposures and/or expenses.

Forward contracts expose the Group to credit, market and liquidity risks. Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The Group is exposed to market risk to the extent that adverse changes occur in the exchange rate of the underlying foreign currency. Liquidity risk represents the possibility that the Group may not be able to rapidly adjust the size of its forward positions at a reasonable price in times of high volatility and financial stress. These risks are mitigated by requiring a minimum counterparty credit quality, restricting the maximum notional exposure as a percentage of the investment portfolio's estimated fair value, and restricting exposures to foreign currencies, individually and in aggregate, as a percentage of the investment portfolio's estimated fair value. Where forward foreign currency contracts are within externally managed investment portfolios, they are disclosed as other investments. Where they are managed directly by the Group, they are disclosed as either other receivables, or other payables, as appropriate.

The notional amount of a derivative contract is the underlying quantity upon which payment obligations are calculated. A long position is equivalent to buying the underlying currency whereas a short position is equivalent to having sold the underlying currency.

The Group has the following open forward foreign currency contracts:

As at 31 December	2023 Notional long $m	2023 Notional short $m	2023 Net notional long (short) $m	2022 Notional long $m	2022 Notional short $m	2022 Net notional long (short) $m
Canadian Dollar	—	**28.7**	**(28.7)**	—	22.8	(22.8)
Euro	**49.0**	**3.6**	**45.4**	42.7	3.8	38.9
Australian Dollar	—	—	—	—	13.8	(13.8)
Japanese Yen	—	—	—	5.2	—	5.2
Sterling	**77.8**	**0.7**	**77.1**	93.5	0.8	92.7
Danish Krone	—	**0.2**	**(0.2)**	—	0.2	(0.2)
Total	**126.8**	**33.2**	**93.6**	141.4	41.4	100.0

III. Debt risk

Debt risk is the risk that the Group will not be able to service either the interest payment, or the principal repayment, amounts on its external borrowings as they fall due. In 2021, the Group issued $450.0 million (in aggregate principal amount) of 5.625% fixed-rate reset junior subordinated notes, repayable on 18 September 2041 (see note 18). The fixed interest rate will reset on 18 September 2031 at a rate per annum equal to the prevailing five-year treasury rate, plus a credit spread of 4.08% and a 100 basis point step up.

The Group is exposed to interest rate risk in the future if prevailing rates at the time of reset are materially different from the existing rates on the debt issue.

IV. Currency risk

Currency risk is the risk that movements in currency exchange rates have a detrimental financial impact on the Group. The Group underwrites from multiple locations and risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Group is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The exchange gains and losses which arise on these assets and liabilities impact profit or loss.

The Group hedges monetary non-U.S. dollar liabilities primarily with non-U.S. dollar assets, but may also use derivatives to mitigate foreign currency exposures. The Group's main foreign currency exposure relates to its insurance obligations, cash holdings, investments, premiums receivable and dividends payable. The Group uses forward foreign currency contracts for the purposes of managing currency exposures.

The Group's assets and liabilities, categorised by currency at their translated carrying amount, are as follows:

Assets	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	**504.4**	**88.5**	**65.6**	**25.9**	**72.5**	**756.9**
Accrued interest receivable	**16.6**	—	—	—	**0.1**	**16.7**
Investments	**2,404.9**	**3.1**	**0.2**	—	**47.3**	**2,455.5**
Reinsurance contract assets	**340.6**	**20.8**	**27.2**	—	**(0.8)**	**387.8**
Other receivables	**44.7**	**12.6**	—	—	**1.1**	**58.4**
Investment in associate	**16.2**	—	—	—	—	**16.2**
Right-of-use assets	**2.4**	**16.8**	—	—	**0.1**	**19.3**
Property, plant and equipment	**0.6**	**9.2**	—	—	—	**9.8**
Intangible assets	**153.8**	**27.3**	—	—	—	**181.1**
Total assets as at 31 December 2023	**3,484.2**	**178.3**	**93.0**	**25.9**	**120.3**	**3,901.7**

Liabilities	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Insurance contract liabilities	**1,504.9**	**96.0**	**135.3**	**18.5**	**69.0**	**1,823.7**
Other payables	**28.7**	**50.6**	—	—	**1.3**	**80.6**
Corporation tax payable	—	**2.0**	—	—	—	**2.0**
Deferred tax liability	**9.9**	**6.3**	—	—	—	**16.2**
Lease liabilities	**2.4**	**22.2**	—	—	**0.1**	**24.7**
Long-term debt	**446.6**	—	—	—	—	**446.6**
Total liabilities as at 31 December 2023	**1,992.5**	**177.1**	**135.3**	**18.5**	**70.4**	**2,393.8**

Assets	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Restated Total $m
Cash and cash equivalents	434.6	23.5	35.6	10.3	44.8	548.8
Accrued interest receivable	11.2	—	—	—	0.1	11.3
Investments	2,160.8	3.0	(0.3)	—	41.4	2,204.9
Reinsurance contract assets	431.4	15.9	28.4	(0.6)	(0.8)	474.3
Other receivables	11.1	17.8	—	—	1.1	30.0
Corporation tax receivable	0.1	1.3	—	—	(0.3)	1.1
Investment in associate	59.7	—	—	—	—	59.7
Right-of-use assets	0.9	19.2	—	—	0.2	20.3
Property, plant and equipment	0.5	0.6	—	—	—	1.1
Intangible assets	153.8	18.6	—	—	—	172.4
Total assets as at 31 December 2022	3,264.1	99.9	63.7	9.7	86.5	3,523.9

Liabilities	U.S.$ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Restated Total $m
Insurance contract liabilities	1,377.6	74.5	135.5	23.2	62.7	1,673.5
Other payables	12.0	25.8	—	—	6.8	44.6
Deferred tax liability	12.3	(2.0)	—	—	—	10.3
Lease liabilities	1.0	22.1	—	—	0.2	23.3
Long-term debt	446.1	—	—	—	—	446.1
Total liabilities as at 31 December 2022	1,849.0	120.4	135.5	23.2	69.7	2,197.8

The impact on net income of a proportional foreign exchange movement of 10.0% up and 10.0% down for the aggregated total of all non U.S. dollar currencies against the U.S. dollar, taken at the year-end spot rates, would be an increase or decrease of $3.1 million (31 December 2022 – $13.1 million (restated)).

C. Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost. The Group's main exposures to liquidity risk are with respect to its insurance, investment, and operational activities. The Group is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts issued. The Group can be exposed to daily calls on its available investment assets, principally to settle insurance claims and to fund trust accounts following a large catastrophe loss.

Exposures in relation to insurance activities are as follows:

- large catastrophic events, or multiple medium-sized events in quick succession, resulting in a requirement to pay a large value of claims within a relatively short time frame, or to fund trust accounts;
- failure of insureds or cedants to meet their contractual obligations with respect to the payment of premiums in a timely manner; and
- failure of reinsurers to meet their contractual obligations with respect to the payment of claims in a timely manner.

Exposures in relation to investment activities are as follows:

- adverse market movements and/or a duration mismatch to obligations, resulting in investments being disposed of at a significant realised loss; and
- an inability to liquidate investments due to market conditions.

The maturity dates of the Group's fixed maturity portfolio are as follows:

As at 31 December 2023	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	**165.8**	**211.7**	**116.4**	**493.9**
Between one and two years	**145.8**	**149.9**	**123.5**	**419.2**
Between two and three years	**149.4**	**135.7**	**106.9**	**392.0**
Between three and four years	**47.8**	**42.9**	**73.3**	**164.0**
Between four and five years	**54.0**	**85.2**	**105.1**	**244.3**
Over five years	**25.7**	**23.7**	**130.4**	**179.8**
Asset backed and mortgage backed securities	**87.0**	**92.6**	**207.3**	**386.9**
Total fixed maturity securities	**675.5**	**741.7**	**862.9**	**2,280.1**

As at 31 December 2022	Core $m	Core plus $m	Surplus $m	Total $m
Less than one year	159.5	212.1	20.9	392.5
Between one and two years	175.2	245.2	25.2	445.6
Between two and three years	113.9	155.3	69.4	338.6
Between three and four years	73.2	80.6	50.8	204.6
Between four and five years	21.1	28.2	48.2	97.5
Over five years	36.6	64.2	145.2	246.0
Asset backed and mortgage backed securities	40.8	83.2	116.1	240.1
Total fixed maturity securities	620.3	868.8	475.8	1,964.9

The maturity profile of the insurance contracts issued and financial liabilities of the Group is as follows:

	Years until liability becomes due - undiscounted values					
As at 31 December 2023	Statement of financial position $m	Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Liabilities						
Insurance contract liabilities[1]	**1,823.7**	**795.3**	**705.7**	**263.5**	**166.9**	**1,931.4**
Other payables	**80.6**	**80.6**	**—**	**—**	**—**	**80.6**
Lease liabilities	**24.7**	**4.5**	**8.7**	**7.2**	**9.5**	**29.9**
Long-term debt[2]	**446.6**	**25.3**	**50.6**	**50.6**	**525.9**	**652.4**
Total	**2,375.6**	**905.7**	**765.0**	**321.3**	**702.3**	**2,694.3**

1. Since the Group applies the PAA model for all insurance contracts issued, the maturity profile represents only the liability for incurred claims, and has been presented on a undiscounted basis.
2. The maturity profile of long-term debt includes accrued interest.

						Restated
	Years until liability becomes due - undiscounted values					
As at 31 December 2022	Statement of financial position $m	Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Liabilities						
Insurance contract liabilities[1]	1,673.5	762.7	678.8	239.4	123.6	1,804.5
Other payables	44.6	44.6	—	—	—	44.6
Lease liabilities	23.3	3.6	6.6	6.8	12.3	29.3
Long-term debt[2]	446.1	25.3	50.6	50.6	551.3	677.8
Total	2,187.5	836.2	736.0	296.8	687.2	2,556.2

1. Since the Group applies the PAA model for all insurance contracts issued, the maturity profile represents only the liability for incurred claims, and has been presented on a undiscounted basis.
2. The maturity profile of long-term debt includes accrued interest.

Within the tables shown above, the insurance contract liabilities balance discloses the period when the claims in respect of insurance contracts issued by the Group are expected to be settled. All other liability balances within the table disclose the earliest period in which the relevant counterparty could contractually require the Group to make payment. Actual maturities of the above may differ from contractual maturities because certain counterparties have the right to call or prepay certain obligations with or without call or prepayment penalties.

While the estimation of future cash flows in relation to ultimate claims settlement is complex and incorporates a significant amount of judgement, the timing of the payment of claims is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience, and management's judgement have been used to determine a likely settlement pattern based on the earliest period in which the Group could be required by the relevant counterparty to make payment. There are no amounts contained within the insurance contract liabilities or reinsurance contract assets as at 31 December 2023 (31 December 2022 – none) that are payable on demand.

As at 31 December 2023, cash and cash equivalents were $756.9 million (31 December 2022 – $548.8 million). The Group manages its liquidity risks through its investment strategy to hold high quality, liquid securities, sufficient to meet its insurance liabilities and other near-term liquidity requirements. The creation of the core and core plus portfolios, with their subset of guidelines, aims to ensure funds are readily available to meet potential insurance liabilities, plus other liquidity requirements, in an extreme event. In addition, the Group has established asset allocation and maturity parameters within the investment guidelines, such that the majority of the investments are in high-quality assets which could be converted into cash promptly and at minimal expense. The Group monitors market changes and outlook, and reallocates assets as deemed necessary.

As at 31 December 2023, the Group considers that it has more than adequate liquidity to pay its obligations as they fall due.

D. Credit risk

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation.

The Group is exposed to credit risk in respect of its fixed maturity investment portfolio, cash and cash equivalents, accrued interest receivable, derivative financial instruments, amounts recoverable from reinsurers within reinsurance contract assets, amounts receivable from insureds and cedants included within insurance contract liabilities, and other receivables.

Credit risk on the fixed maturity portfolio is mitigated through the Group's policy to invest in instruments of high credit quality issuers, and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating of BBB-/Baa3 may comprise no more than 15.0% of shareholders' equity. In addition, no one issuer, with the exception of U.S. government and agency securities, other G10 government guaranteed securities (excluding Italy), and Australian sovereign debt, should exceed 5.0% of shareholders' equity. The Group is therefore not exposed to any significant credit concentration risk on either its fixed maturity investment portfolio, or cash and cash equivalents, except for fixed maturity securities issued by the U.S. government and government agencies, and other highly-rated governments.

Credit risk on exchange-traded derivative instruments is mitigated by the use of clearing houses to reduce counterparty credit risk, requiring the posting of margins and the settling of unrealised gains and losses on a daily basis. Credit risk on OTC derivatives is mitigated by monitoring the creditworthiness of the counterparties, and by requiring collateral amounts exceeding predetermined thresholds to be posted for positions which have accrued gains.

Credit risk on insurance contract cash flows from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Group has established relationships, and by rigorous cash collection procedures. The Group also has a broker approval process in place. Binding authorities are subject to standard market controls, including credit control. Credit risk from reinsurance contract cash flows is primarily managed by the review and approval of reinsurer security, as discussed on page 151.

Reinsurance contracts held in the table below represent the credit exposed components of reinsurance contract assets. These have been presented on an undiscounted basis, and represent the maximum exposure to credit risk considering the Group's ability to offset balances, where applicable, under the relevant reinsurance contracts held.

The table below presents an analysis of the Group's maximum exposures to counterparty credit risk, based on their rating.

As at 31 December 2023	Cash and cash equivalents $m	Fixed maturity securities $m	Credit exposed component of reinsurance contracts held $m
AAA	**463.2**	**246.9**	**—**
AA+, AA, AA-	**2.9**	**931.8**	**3.6**
A+, A, A-	**285.7**	**587.1**	**410.3**
BBB+, BBB, BBB-	**5.1**	**372.4**	**2.2**
Other[1]	**—**	**141.9**	**51.9**
Total	**756.9**	**2,280.1**	**468.0**

1. Reinsurance contracts held classified as 'other' include $43.4 million which are fully collateralised.

As at 31 December 2022	Cash and cash equivalents $m	Fixed maturity securities $m	Restated Credit exposed component of reinsurance contracts held $m
AAA	382.7	189.3	—
AA+, AA, AA-	2.5	903.4	4.1
A+, A, A-	163.4	459.0	513.1
BBB+, BBB, BBB-	—	284.4	2.7
Other[1]	0.2	128.8	50.5
Total	548.8	1,964.9	570.4

1. Reinsurance contracts held classified as 'other' include $42.0 million which are fully collateralised.

Reinsurance is ceded across all geographic regions in which the Group operates. The Group does not have a significant concentration of credit risk with any single reinsurer.

The Group's maximum exposure to credit risk arising from insurance contracts issued is $747.1 million (31 December 2022 – $622.2 million (restated)), which relates to the elements of the insurance contract liabilities balance which are considered to be exposed to credit risk, specifically, premium receivables and reinstatement premium receivables, net of profit commissions payable on inwards reinsurance business.

ECL have been determined to be immaterial as at 31 December 2023 and 31 December 2022.

E. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel, systems, or non-insurance external events. The Group and its subsidiaries have identified and evaluated their key operational risks, and these are incorporated in the risk registers and modelled within the subsidiaries' capital models. The Group has also established, and monitors compliance with, internal operational risk tolerances. The RRC reviews operational risk on at least an annual basis and operational risk is covered in the Group CRO's quarterly ORSA report to the LHL Board of Directors, entity level boards, and in the LSL RCC reporting.

In order to manage operational risks, the Group has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. Key risk indicators have been established and are monitored on a regular basis, and a formal loss event and near-miss reporting process has been implemented. The risk management function facilitates a quarterly risk and control affirmation process and performs detailed control testing, the outcomes of which inform the CRO's quarterly opinion of the overall control environment. The Group's internal audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through sample testing. All higher risk areas are subject to an annual audit, while compliance with tax operating guidelines is reviewed quarterly. Frequency of consideration for audit for all other areas varies from quarterly at the most frequent, to a minimum of once every four years, on a rotational basis.

The operational cyber risk that comes with employees working from home is managed through enhanced monitoring of network activity, targeted staff training, a quarterly risk and control affirmation process, annual testing of business continuity plans and disaster recovery plans, and a cyber security incident response plan. The risk is monitored on an ongoing basis through the use of a series of quantitative key risk indicators which are the aggregate of key performance indicators monitored by the Group's information security function.

F. Strategic risk

Strategic risk is the risk that the Group does not develop and implement an appropriate long-term strategy to meet its business goals. The Group has identified several strategic risks. These include: i) business planning risk, ii) capital management risk, iii) retention risk and iv) growth risk.

I. Business planning risk

Business planning risk is the risk that either the poor execution of the business plan or an inappropriate business plan, results in a strategy that fails to adequately consider and reflect the current trading environment, resulting in an inability of the Group to optimise performance, increasing reputational risk. The Group addresses the risks associated with the planning and execution of the business plan through a combination of the following:

- an iterative annual forward-looking business planning process with cross departmental involvement;
- evaluation and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results;
- periodic review and re-forecasting as market conditions change; and
- evaluation of climate change and the potential short, medium and long-term implications/considerations for the business.

The forward-looking business planning process covers a three-year period from 2024 to 2026, and applies a number of sensitivity, stress and scenario tests. These tests include consideration of climate change risks. The sensitivity and stress testing identified that even under the more extreme stress scenarios the Group had more than adequate liquidity and regulatory solvency capital headroom.

II. Capital management risk

Capital management risk is the risk of failing to maintain adequate capital, accessing capital at an inflated cost, or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models, that could result in an increase in capital requirements, or a change in the type of capital required. The total capital of the Group is as follows:

As at 31 December	2023 $m	Restated 2022 $m
Shareholders' equity	**1,507.9**	1,326.1
Long-term debt	**446.6**	446.1
Total capital	**1,954.5**	1,772.2
Less: intangible assets	**181.1**	172.4
Total tangible capital	**1,773.4**	1,599.8

Risks associated with the effectiveness of the Group's capital management are mitigated as follows:

- regular monitoring of current and prospective regulatory and rating agency capital requirements;
- regular discussion with the LSL management team regarding Lloyd's capital requirements;
- oversight of capital requirements by the Board of Directors;
- ability to purchase sufficient, cost-effective reinsurance;
- maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments; and
- participation in industry groups such as the International Underwriters Association, the Association of Bermuda Insurers and Reinsurers and the Lloyd's Market Association.

The Group reviews the level and composition of capital on an ongoing basis with a view to:

- maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- maximising the risk-adjusted return to shareholders within predetermined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal, rating agency and regulatory capital requirements.

Increases in the Group's capital are held within the Group, invested, or returned to shareholders as appropriate. The retention of earnings generated by the Group leads to an increase in capital. Capital raising can include debt or equity, and returns of capital may be made through dividends, share repurchases, a redemption of debt, or any combination thereof. All capital actions require approval by the Board of Directors.

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements, plus the capital requirements of the combination of a wide range of other business activities. These approaches are used by management in decision-making.

The Group's long-term debt held as at 31 December 2023 and 31 December 2022 is approved as 'Tier 2 Ancillary Capital' by the BMA.

The Group's aim is to maximise risk-adjusted returns for its shareholders across the cycle through a purposeful and sustainable business culture. The return is measured by management in terms of the Change in DBVS in the period. This aim is a long-term goal, acknowledging that management expects both higher and lower results in the shorter term. The cyclicality and volatility of the insurance market is expected to be the largest driver of this pattern. Management monitors these peaks and troughs by adjusting the Group's portfolio to make the most effective use of available capital and seeking to maximise the risk-adjusted return.

The sources of capital used by the Group is equity shareholders' funds and borrowings. As a holding company, LHL relies on dividends from its operating entities to provide the cash flow required for debt service and dividends to shareholders. The operating entities' ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the jurisdictions in which they operate.

Both the Group and LICL are regulated by the BMA, and are required to monitor their enhanced capital requirement under the BMA's regulatory framework, which has been assessed as equivalent to the Solvency II regime. Bermuda is also recognised as a qualified and reciprocal jurisdiction by the U.S. NAIC, and LICL is approved as a reciprocal reinsurer. The Group and LICL's capital requirement are calculated using the BSCR standard formula model. For the years ended 31 December 2023 and 31 December 2022, both the Group and LICL were more than adequately capitalised under the BMA's regulatory regime.

The Group's UK regulated insurance companies are required to comply with the Solvency II regime and are regulated by the PRA and FCA. LSL is also regulated by Lloyd's. Under Solvency II, the basis for assessing regulatory capital and solvency comprises a market-consistent economic balance sheet and a SCR, determined using either an internal model or the standard formula.

LUK calculates its SCR using the standard formula. LUK's Solvency II own funds are primarily comprised of Tier 1 items for the years ended 31 December 2023 and 31 December 2022. Tier 1 capital is the highest-quality capital under Solvency II with the greatest loss-absorbing capacity, comprising share capital and retained earnings. For the years ended 31 December 2023 and 31 December 2022, LUK was more than adequately capitalised under the Solvency II regime.

The Group is closely monitoring consultations and proposals related to changes to the UK Solvency regime post the UK's departure from the E.U. on 31 December 2020. Whilst the areas under review are not currently expected to have a material impact on the solvency position of any of the Group's UK regulated entities, there will likely be a change in the reporting requirements.

The Group's underwriting capacity in its Lloyd's syndicates must be supported by providing a deposit in the form of cash, securities, or LOCs, which are referred to as FAL. The capital framework at Lloyd's requires each managing agent to calculate the capital requirement for each syndicate they manage. Solvency II internal models are used to determine capital requirements for Syndicate 2010 and Syndicate 3010 based on the uSCR. Lloyd's has the discretion to take into account other factors at syndicate or member level to uplift the calculated uSCR. This may include perceived deficiencies in the internal model result, as well as the need to maintain Lloyd's overall security rating. Currently, as a minimum, Lloyd's applies a 35.0% uplift to each syndicate's uSCR to arrive at the ECA.

Lloyd's then uses each syndicate's ECA as a basis for determining member level capital requirements, which is backed by FAL. For the 2024 calendar year the Group's corporate member's FAL requirement was set at 67.0% (2023 – 83.5%) of underwriting capacity. Further solvency adjustments are made to allow for open year profits and losses of the syndicates on which the corporate member participates. The Group has a FAL requirement of £461.2 million as at 31 December 2023 (31 December 2022 – £544.5 million).

For the years ended 31 December 2023 and 31 December 2022, the regulatory capital requirements of all the Group's regulatory jurisdictions were met.

III. Retention risk

Retention risk is the risk of inappropriate succession planning, poor staff retention in key roles, and poor management of key person risks. Risks associated with succession planning, staff retention and key person risks are mitigated through a combination of resource planning processes and controls, including:

- the identification of key personnel, together with appropriate succession plans;
- documented recruitment procedures, position descriptions and employment contracts;
- resource monitoring and the provision of appropriate compensation, including equity based compensation which vests over a defined time horizon;
- the use of KRIs for voluntary staff turnovers; and
- training schemes.

IV. Growth risk

Growth risk is the risk of organisational stretch as the Group grows, in terms of volume of business written and number of employees, as well as from transformation programmes to ensure the Group has appropriate systems, infrastructure and data in place to support business activities. Growth risk is mitigated through continuous monitoring of the Group's current state against the Group's business plan and goals, together with engagement with individual management teams within the Group to validate that they have the resources they require to deliver their own business objectives.

Notes to the accounts

For the year ended 31 December 2023

1. General information

The Group is a provider of global specialty insurance and reinsurance products with operations in London, Bermuda, the U.S., and Australia. LHL was incorporated under the laws of Bermuda on 12 October 2005. On 16 March 2009, LHL (registered number 37415) was added to the Official List and its common shares were admitted to trading on the main market of the LSE; previously LHL's shares were listed on AIM, a subsidiary market of the LSE. Since 21 May 2007, LHL's shares have had a secondary listing on the BSX. LHL's head office and registered office is Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

The consolidated financial statements for the year ended 31 December 2023 include LHL's subsidiary companies, the Group's investment in associate, and the Group's share of the syndicates' assets and liabilities, and income and expenses. A full listing of the Group's related parties can be found in note 22.

2. Segmental reporting

Management and the Board of Directors review the Group's business primarily by its two principal segments: reinsurance and insurance. These segments are therefore deemed to be the Group's operating segments for the purposes of segmental reporting. Lines of business are underwritten within each operating segment. These lines of business written primarily, but not exclusively, on a reinsurance or insurance basis are reported under the Head of Reinsurance and the Head of Insurance based on the products that they manage.

Operating segment performance is measured by the insurance service result and net insurance ratio. The performance of the overall Group is measured by the combined ratio on both an undiscounted and discounted basis.

All amounts reported are transactions with external parties and the Group's associate (see note 15). There are no significant inter-segmental transactions, and there are no significant insurance or reinsurance contracts that insure or reinsure risks in Bermuda, the Group's country of domicile.

Revenue and expense by operating segment

For the year ended 31 December 2023	Reinsurance $m	Insurance $m	Total $m
Insurance revenue	714.9	805.0	1,519.9
Insurance service expenses	(254.2)	(442.0)	(696.2)
Insurance service result before reinsurance contracts held	**460.7**	**363.0**	**823.7**
Allocation of reinsurance premium	(174.6)	(250.2)	(424.8)
Amounts recoverable from reinsurers	(78.2)	61.4	(16.8)
Net expense from reinsurance contracts held	**(252.8)**	**(188.8)**	**(441.6)**
Insurance service result	**207.9**	**174.2**	**382.1**
Finance (expense) from insurance contracts issued	(56.6)	(41.7)	(98.3)
Finance income from reinsurance contracts held	16.8	14.9	31.7
Net insurance financing result	**(39.8)**	**(26.8)**	**(66.6)**
Net investment return			160.5
Other operating expenses			(107.4)
Net other unallocated income and (expenses)			(35.9)
Profit before tax			**332.7**
Net insurance ratio	61.5%	68.6%	65.1%
Net operating expense ratio			9.8%
Combined ratio (discounted)			**74.9%**
Discounting impact on combined ratio			7.7%
Combined ratio (undiscounted)			**82.6%**

2. Segmental reporting continued

For the year ended 31 December 2022 - Restated	Reinsurance $m	Insurance $m	Total $m
Insurance revenue	560.4	666.1	1,226.5
Insurance service expenses	(528.3)	(466.3)	(994.6)
Insurance service result before reinsurance contracts held	32.1	199.8	231.9
Allocation of reinsurance premium	(152.7)	(219.1)	(371.8)
Amounts recoverable from reinsurers	140.0	141.5	281.5
Net expenses from reinsurance contracts held	(12.7)	(77.6)	(90.3)
Insurance service result	19.4	122.2	141.6
Finance income from insurance contracts issued	16.6	3.5	20.1
Finance (expense) from reinsurance contracts held	(5.2)	(1.5)	(6.7)
Net insurance financing result	11.4	2.0	13.4
Net investment return			(76.7)
Other operating expenses			(58.3)
Net other unallocated income and (expenses)			(37.3)
Loss before tax			(17.3)
Net insurance ratio	95.2%	72.7%	83.4%
Net operating expense ratio			6.8%
Combined ratio (discounted)			90.2%
Discounting impact on combined ratio			8.5%
Combined ratio (undiscounted)			98.7%

3. Net insurance financing result

IFRS 17 requires insurance contracts issued and reinsurance contracts held to be accounted for on a discounted basis. The table below shows the total impact of discounting recognised in the consolidated statement of comprehensive income for the years ended 31 December 2023 and 31 December 2022.

For the year ended 31 December 2023	Insurance contracts issued $m	Reinsurance contracts held $m	Total $m
Initial discount included in insurance service result	**101.9**	**(17.2)**	**84.7**
Unwind of discount	**(84.2)**	**28.4**	**(55.8)**
Impact of change in assumptions	**(14.1)**	**3.3**	**(10.8)**
Finance (expense) income	**(98.3)**	**31.7**	**(66.6)**
Total net discounting income	**3.6**	**14.5**	**18.1**

For the year ended 31 December 2022	Insurance contracts issued $m	Reinsurance contracts held $m	Total $m
Initial discount included in insurance service result	109.1	(36.6)	72.5
Unwind of discount	(39.7)	13.7	(26.0)
Impact of change in assumptions	59.8	(20.4)	39.4
Finance income (expense)	20.1	(6.7)	13.4
Total net discounting income (expense)	129.2	(43.3)	85.9

The discounting approach and the yield curves used to discount the cash flows of insurance contracts issued and reinsurance contracts held for our major currencies are provided within the risk disclosures on pages 157 to 158.

An analysis of the Group's net investment return is disclosed within note 4. The relationship between the Group's total finance income and expense from insurance contracts issued, and reinsurance contracts held, is not typically expected to correlate directly with the Group's net investment return since:

- the Group's investment portfolio is of greater magnitude than its insurance contract liabilities, net of its reinsurance contract assets;
- in accordance with the requirements of IFRS 17, the discount rate used in respect of the Group's insurance contract liabilities, and reinsurance contract assets, are set with specific reference to the Group's insurance contracts, and not its investment portfolio; and
- there are a mixture of securities within the Group's investment portfolio, certain of which do not have their valuation directly or primarily affected by changes in interest rates.

4. Net investment return

The total net investment return for the Group is as follows:

For the year ended 31 December	2023 $m	Restated 2022 $m
Interest and dividend income on financial investments	**85.9**	51.1
Interest on cash and cash equivalents	**22.6**	4.6
Net realised gains (losses)	**3.9**	(24.7)
Net unrealised gains (losses)	**53.4**	(103.0)
Investment income (loss)	**165.8**	(72.0)
Investment management fees	**(5.3)**	(4.7)
Total net investment return	**160.5**	(76.7)

The Group adopted IFRS 9 on 1 January 2023 (see note 24).

5. Other income

For the year ended 31 December	2023 $m	2022 $m
Lancashire Capital Management		
Underwriting fees	**—**	3.1
Profit commission	**—**	0.9
Lancashire Syndicates		
Managing agency fees	**1.0**	1.1
Consortium fees	**1.3**	1.1
Consortium profit commission	**0.3**	0.1
Coverholder commission income	**0.3**	0.2
Total other income	**2.9**	6.5

In the year ended 31 December 2023, LCM did not recognise any underwriting fees as there were no new underwriting cycles entered into. As at 31 December 2023, contract assets in relation to other income amounted to $2.1 million (31 December 2022 – $1.3 million). These contract assets are presented within other receivables in the consolidated statement of financial position.

6. Expenses

Expenses incurred by the Group in the reporting period are outlined in the table below.

For the year ended 31 December	2023			Restated 2022		
	Other operating expenses $m	Directly attributable expenses $m	Total expenses $m	Other operating expenses $m	Directly attributable expenses $m	Total expenses $m
Employee remuneration costs	**70.5**	**49.4**	**119.9**	33.8	40.2	74.0
Operating expenses	**36.9**	**32.8**	**69.7**	24.5	30.2	54.7
Total	**107.4**	**82.2**	**189.6**	58.3	70.4	128.7

Directly attributable expenses comprise fixed and variable expenses incurred by the Group in the reporting period that relate directly to fulfilling insurance contracts issued, and have been allocated to insurance service expenses within the consolidated statement of comprehensive income.

Auditor's remuneration included within other operating expenses incurred by the Group in the reporting period is outlined in the table below.

For the year ended 31 December	2023 $m	2022 $m
Auditor's remuneration		
Group audit fees	**4.9**	4.1
Other services	**0.6**	0.4
Total	**5.5**	4.5

During the years ended 31 December 2023 and 31 December 2022, KPMG LLP provided non-audit services in relation to the Group's half-year reporting review, Solvency II reporting and Lloyd's reporting. Fees for non-audit services provided in 2023 totalled $0.6 million (2022 – $0.4 million).

7. Employee benefits

For the year ended 31 December	2023			Restated 2022		
	Other operating expenses $m	Directly attributable expenses $m	Total expenses $m	Other operating expenses $m	Directly attributable expenses $m	Total expenses $m
Employee remuneration cost	**70.5**	**49.4**	**119.9**	33.8	40.2	74.0
Total cash compensation	**70.5**	**49.4**	**119.9**	33.8	40.2	74.0
RSS – performance	**4.3**	**—**	**4.3**	0.5	—	0.5
RSS – ordinary	**10.5**	**—**	**10.5**	7.4	—	7.4
RSS – bonus deferral	**0.4**	**—**	**0.4**	0.7	—	0.7
Total equity based compensation	**15.2**	**—**	**15.2**	8.6	—	8.6
Total employee benefits	**85.7**	**49.4**	**135.1**	42.4	40.2	82.6

Equity based compensation

The Group's equity based compensation scheme is its RSS. All outstanding and future RSS grants have an exercise price of $nil, and an exercise period of ten years from the grant date.

The fair value of any TSR component of the nil-cost options is estimated using a stochastic model. For all other components the Black-Scholes model is used to estimate the fair value. The following table lists the assumptions used in the stochastic model for the RSS awards granted during the years ended 31 December 2023 and 31 December 2022:

Assumptions	2023	2022
Dividend yield	**—**	—
Expected volatility[1]	**33.5%**	28.1%
Risk-free interest rate[2]	**3.3%**	1.3%
Expected average life of options	**3.0 years**	3.0 years
Share price	**$7.48**	$6.72

1. The expected volatility of the LHL share prices are calculated based on the movement in the share prices over a period prior to the grant date, equal in length to the expected life of the award.
2. The risk-free interest rate is consistent with three-year UK government bond yields on the date of grant.

The calculation of the equity based compensation expense assumes forfeitures due to employee turnover of 10.0% per annum prior to vesting, with subsequent adjustments to reflect actual experience.

RSS – Performance

The performance RSS options vest after a three-year period and are dependent on certain performance criteria. A maximum of 85.0% (2022 – 85.0%) of the performance RSS options will vest only on the achievement of a change in DBVS in excess of a required amount. A maximum of 15.0% (2022 – 15.0%) of the performance RSS options will vest only on the achievement of an absolute TSR in excess of a required amount. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

	Total number of restricted shares
Outstanding as at 31 December 2021	3,263,712
Granted	1,166,257
Exercised	(387,722)
Forfeited	(186,988)
Lapsed	(457,700)
Outstanding as at 31 December 2022	3,397,559
Granted	**892,049**
Exercised	**(102,529)**
Forfeited	**(19,846)**
Lapsed	**(665,089)**
Outstanding as at 31 December 2023	**3,502,144**
Exercisable as at 31 December 2022	140,323
Exercisable as at 31 December 2023	**197,203**

	2023 Total restricted shares	2022 Total restricted shares
Weighted average remaining contractual life	**7.9 years**	8.1 years
Weighted average fair value at date of grant during the year	**$6.12**	$5.59
Weighted average share price at date of exercise during the year	**$7.31**	$6.59

RSS – Ordinary

The ordinary RSS options vest three years from the date of grant and do not have associated performance criteria. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

	Total number of restricted shares
Outstanding as at 31 December 2021	2,883,971
Granted	1,994,874
Exercised	(548,748)
Forfeited	(153,132)
Outstanding as at 31 December 2022	4,176,965
Granted	**1,989,850**
Exercised	**(487,050)**
Forfeited	**(177,723)**
Outstanding as at 31 December 2023	**5,502,042**
Exercisable as at 31 December 2022	634,373
Exercisable as at 31 December 2023	**834,085**

	2023 Total restricted shares	2022 Total restricted shares
Weighted average remaining contractual life	**7.8 years**	8.0 years
Weighted average fair value at date of grant during the year	**$7.48**	$6.69
Weighted average share price at date of exercise during the year	**$7.49**	$6.02

RSS – Bonus deferral

The vesting periods of the bonus deferral RSS options range from one to three years from the date of grant and do not have associated performance criteria. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise.

7. Employee benefits continued

	Total number of restricted shares
Outstanding as at 31 December 2021	350,152
Granted	46,648
Exercised	(114,196)
Forfeited	(14,056)
Outstanding as at 31 December 2022	268,548
Granted	**48,515**
Exercised	**(86,391)**
Forfeited	**—**
Outstanding as at 31 December 2023	**230,672**
Exercisable as at 31 December 2022	63,247
Exercisable as at 31 December 2023	**103,377**

	2023 Total restricted shares	2022 Total restricted shares
Weighted average remaining contractual life	**6.7 years**	7.2 years
Weighted average fair value at date of grant during the year	**$6.58**	$6.04
Weighted average share price at date of exercise during the year	**$7.31**	$6.45

RSS – Lancashire Syndicate Limited acquisition

The vesting periods of the LSL acquisition RSS options ranged from three to five years and were dependent on certain performance criteria. These options vested in full on 31 December 2018. An amount equivalent to the dividends paid between the grant date and the exercise date accrues and is paid at the time of exercise, pro-rata according to the number of RSS options that vested.

	Total number of restricted shares
Outstanding as at 31 December 2021	64,742
Exercised	(33,387)
Outstanding as at 31 December 2022	31,355
Exercised	**(28,437)**
Forfeited	**(2,918)**
Outstanding as at 31 December 2023	**—**
Exercisable as at 31 December 2022	31,355
Exercisable as at 31 December 2023	**—**

	2023 Total restricted shares	2022 Total restricted shares
Weighted average remaining contractual life	**—**	0.9 years
Weighted average fair value at date of grant	**$13.01**	$13.01
Weighted average share price at date of exercise during the year	**$7.44**	$5.59

8. Financing cost

For the year ended 31 December	2023 $m	2022 $m
Interest expense on long-term debt	**25.8**	25.8
Interest expense on lease liabilities	**1.5**	0.8
Other financing costs	**4.3**	2.6
Total financing cost	**31.6**	29.2

Refer to note 18 for details of long-term debt and financing arrangements, and to note 16 for details of lease liabilities.

9. Tax

For the year ended 31 December	2023 $m	Restated 2022 $m
Corporation tax charge for the period	**5.8**	—
Adjustments in respect of prior period corporation tax	**(0.9)**	(0.6)
Deferred tax charge (credit) for the period (see note 14)	**3.8**	(2.3)
Adjustment in respect of prior period deferred tax (see note 14)	**2.5**	1.1
Total tax charge (credit)	**11.2**	(1.8)

Tax reconciliation[1]	2023 $m	Restated 2022 $m
Profit (loss) before tax	**332.7**	(17.3)
Tax calculated at the standard corporation tax rate applicable in Bermuda 0%	**—**	—
Non-taxable income		
Effect of income taxed at a higher rate	**10.0**	0.7
Adjustments in respect of prior period	**1.6**	0.5
Differences related to equity based compensation	**(0.7)**	(0.4)
Other expense permanent differences	**0.3**	(2.6)
Total tax charge (credit)	**11.2**	(1.8)

1. All tax reconciling balances have been classified as recurring items.

The current tax charge (credit) as a percentage of the Group's profit (loss) before tax is 3.4% (2022 – negative 10.4%).

United Kingdom

The UK subsidiaries of LHL are subject to normal UK corporation tax on all their taxable profits.

Refer to note 14 for details of recent OECD global minimum tax and Bermuda corporate income tax developments.

10. Cash and cash equivalents

As at 31 December	2023 $m	2022 $m
Cash at bank and in hand	**324.0**	191.6
Cash equivalents	**432.9**	357.2
Total cash and cash equivalents	**756.9**	548.8

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value. Refer to note 18 for the cash and cash equivalent balances on deposit as collateral. Cash and cash equivalents include managed cash of $263.8 million (31 December 2022 – $260.8 million).

11. Investments

As at 31 December 2023	Cost $m	Unrealised gains $m	Unrealised losses $m	Fair value $m
Fixed maturity securities[1]	**2,314.1**	**22.6**	**(56.6)**	**2,280.1**
Private investment funds	**174.4**	**4.2**	**(13.0)**	**165.6**
Hedge funds	**8.5**	**1.4**	**—**	**9.9**
Other investments	**—**	**—**	**(0.1)**	**(0.1)**
Total investments	**2,497.0**	**28.2**	**(69.7)**	**2,455.5**

1. The nature of our fixed maturity securities are presented in the risk disclosures on pages 154 to 156.

				Restated
As at 31 December 2022	Cost $m	Unrealised gains $m	Unrealised losses $m	Fair value $m
Fixed maturity securities[1]	2,059.8	6.7	(101.6)	1,964.9
Private investment funds	116.0	1.5	(9.4)	108.1
Hedge funds	95.0	13.4	(4.5)	103.9
Index linked securities	30.0	—	(1.8)	28.2
Other investments	—	0.2	(0.4)	(0.2)
Total investments	2,300.8	21.8	(117.7)	2,204.9

1. The nature of our fixed maturity securities are presented in the risk disclosures on pages 154 to 156.

The Group determines the fair value of each individual security utilising the highest-level inputs of the fair value hierarchy, as defined below. The fair value of fixed maturity investments is determined from quotations received from third-party nationally recognised pricing services whose pricing processes, and the controls thereon, are subject to an annual audit on both the design and the operational effectiveness of those controls. The fair value of private investment funds is estimated based on the most recently available NAV as advised by the external fund manager or third-party administrator.

The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' own pricing.

The Group has not made any adjustments to any pricing provided by independent pricing services, or its third-party investment managers for either the year ending 31 December 2023 or the year ending 31 December 2022.

The fair values of securities within the Group's investment portfolio are estimated using the following valuation techniques in accordance with the fair value hierarchy:

Level (i)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions, on an arm's length basis.

Level (ii)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities, or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (ii) are valued via independent external sources using directly observable inputs to models or other valuation methods. The valuation methods used are typically of an industry-accepted standard and include broker-dealer quotes and pricing models, including present values and future cash flows, together with inputs such as yield curves, interest rates, prepayment profiles, and default rates.

Level (iii)

Level (iii) investments are securities for which valuation techniques are not based on observable market data, and require therefore significant management judgement to determine an appropriate fair value. The Group determines securities classified as Level (iii) to include hedge funds, private investment funds and loans made by the Group's Lloyd's syndicate platforms to the Lloyd's central fund.

The fair values of the Group's hedge funds are determined using a combination of the most recent NAVs, provided by each fund's independent administrator, and the estimated performance provided by each hedge fund manager. Independent administrators provide monthly reported NAVs with up to a one-month delay in valuation. The most recent NAV available for each hedge fund is adjusted for the estimated performance, as provided by the fund manager, between the NAV date and the reporting date. Historically, estimated fair values incorporating these performance estimates have not been significantly different from subsequent NAVs. Given the Group's knowledge of the underlying investments, and the size of the Group's investment therein, we would not anticipate any material variance between estimated valuations and the final NAVs reported by the administrators.

The fair value of the Group's private investment funds are determined using statements received from each fund's investment managers on either a monthly or quarterly in arrears basis. In addition, these valuations will be compared with benchmarks or other indices to assess the reasonableness of the estimated fair value of each fund. Given the Group's knowledge of the underlying investments and the size of the Group's investment therein, the Group would not anticipate any material variance between the statements and the final actual NAVs reported by the investment managers.

The Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. Transfers between Level (i) to Level (ii) securities amounted to $101.9 million, and transfers from Level (ii) to Level (i) securities amounted to $188.9 million during the year ended 31 December 2023.

The fair value hierarchy of the Group's investment holdings is as follows:

As at 31 December 2023	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
• Short-term investments	21.4	52.5	—	73.9
• Fixed maturity funds	—	27.1	—	27.1
• U.S. treasuries	585.9	—	—	585.9
• Other government bonds	24.2	23.0	—	47.2
• U.S. municipal bonds	—	13.5	—	13.5
• U.S. government agency debt	41.8	15.3	—	57.1
• Asset backed securities	—	236.7	—	236.7
• U.S. government agency mortgage backed securities	—	117.4	—	117.4
• Non-agency mortgage backed securities	—	11.5	—	11.5
• Non-agency commercial mortgage backed securities	—	21.3	—	21.3
• Bank loans	15.0	127.6	—	142.6
• Corporate bonds	519.2	417.2	—	936.4
• Other fixed maturities	—	6.3	3.2	9.5
Total fixed maturity securities	**1,207.5**	**1,069.4**	**3.2**	**2,280.1**
Private investment funds	—	—	165.6	165.6
Hedge funds	—	—	9.9	9.9
Other investments	—	(0.1)	—	(0.1)
Total investments	**1,207.5**	**1,069.3**	**178.7**	**2,455.5**

11. Investments continued

As at 31 December 2022	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
• Short-term investments	18.5	3.0	—	21.5
• Fixed maturity funds	—	29.4	—	29.4
• U.S. treasuries	650.2	—	—	650.2
• Other government bonds	5.5	33.4	—	38.9
• U.S. municipal bonds	—	22.6	—	22.6
• U.S. government agency debt	38.0	21.0	—	59.0
• Asset backed securities	—	160.9	—	160.9
• U.S. government agency mortgage backed securities	—	41.0	—	41.0
• Non-agency mortgage backed securities	—	14.0	—	14.0
• Non-agency commercial mortgage backed securities	—	24.2	—	24.2
• Bank loans	22.7	106.2	—	128.9
• Corporate bonds	235.0	517.3	—	752.3
• Other fixed maturities	—	18.9	3.1	22.0
Total fixed maturity securities	969.9	991.9	3.1	1,964.9
Private investment funds	—	—	108.1	108.1
Hedge funds	—	—	103.9	103.9
Index linked securities	—	28.2	—	28.2
Other investments	—	(0.2)	—	(0.2)
Total investments	969.9	1,019.9	215.1	2,204.9

The table below analyses the movements in investments classified as Level (iii) investments:

	Private investment funds $m	Hedge funds $m	Other fixed maturities[1] $m	Total $m
As at 31 December 2021	105.7	102.9	3.9	212.5
Purchases	17.6	13.3	—	30.9
Sales	(7.6)	(10.5)	—	(18.1)
Net realised (losses) recognised in profit or loss	—	(1.1)	—	(1.1)
Net unrealised (losses) recognised in profit or loss	(7.6)	(0.7)	(0.8)	(9.1)
As at 31 December 2022	108.1	103.9	3.1	215.1
Purchases	**63.5**	**0.9**	—	**64.4**
Sales	**(5.1)**	**(99.6)**	—	**(104.7)**
Net realised gains recognised in profit or loss	—	**12.2**	—	**12.2**
Net unrealised (losses) gains recognised in profit or loss	**(0.9)**	**(7.5)**	**0.1**	**(8.3)**
As at 31 December 2023	**165.6**	**9.9**	**3.2**	**178.7**

1. Included within fixed maturity securities are the Lloyd's central fund loans which are classified at Level (iii) within the fair value hierarchy.

Apart from the purchases and sales shown in the table above, there have been no other transfers into or out of the Level (iii) investments during either the current period or the prior period.

Included within net unrealised (losses) gains recognised in profit or loss within the table above are net unrealised gains related to Level (iii) investments still held as at 31 December 2023 of $1.3 million (31 December 2022 – $9.1 million net unrealised losses).

12. Interest in structured entities

Consolidated structured entities

The Group provides capital contributions to the EBT to enable it to meet its obligations to employees under the various Group equity based compensation plans (see note 7). The Group has a contractual agreement which may require it to provide financial support to the EBT (see note 19 and note 22).

Unconsolidated structured entities in which the Group has an interest

As part of its investment activities, the Group invests in unconsolidated structured entities. The Group does not sponsor any of the unconsolidated structured entities.

A summary of the Group's interest in unconsolidated structured entities is as follows:

As at 31 December 2023	Investments $m	Interest in associate $m	Total $m
Fixed maturity securities			
• Asset backed securities	**236.7**	**—**	**236.7**
• U.S. government agency mortgage backed securities	**117.4**	**—**	**117.4**
• Non-agency mortgage backed securities	**11.5**	**—**	**11.5**
• Non-agency commercial mortgage backed securities	**21.3**	**—**	**21.3**
Total fixed maturity securities	**386.9**	**—**	**386.9**
Investment funds			
• Private investment funds	**157.6**	**—**	**157.6**
• Hedge funds	**9.9**	**—**	**9.9**
Total investment funds	**167.5**	**—**	**167.5**
Specialised investment vehicles			
• KHL (note 15)	**—**	**16.2**	**16.2**
Total	**554.4**	**16.2**	**570.6**

			Restated
As at 31 December 2022	Investments $m	Interest in associate $m	Total $m
Fixed maturity securities			
• Asset backed securities	160.9	—	160.9
• U.S. government agency mortgage backed securities	41.0	—	41.0
• Non-agency mortgage backed securities	14.0	—	14.0
• Non-agency commercial mortgage backed securities	24.2	—	24.2
Total fixed maturity securities	240.1	—	240.1
Investment funds			
• Private investment funds	105.6	—	105.6
• Hedge funds	103.9	—	103.9
Total investment funds	209.5	—	209.5
Specialised investment vehicles			
• KHL (note 15)	—	59.7	59.7
Total	449.6	59.7	509.3

The fixed maturity structured entities are created to meet specific investment needs of borrowers and investors which cannot be met from standardised financial instruments available in the capital markets. As such, they provide liquidity to the borrowers in these markets and provide investors with an opportunity to diversify risk away from standard fixed maturity securities. Whilst individual securities may differ in structure, the principles of the instruments are broadly the same, and it is considered appropriate to aggregate the investments into the categories detailed above.

The primary risks that the Group faces in respect of its investments in structured entities are similar to the risks it faces in respect of other financial investments held on the consolidated statement of financial position, in that the fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure, and changes in the term structure of interest rates, which change investors' expectation of the cash flows associated with the instrument, and therefore its value in the market. The total assets of these structured entities are not considered meaningful for the purpose of understanding the related risks, and therefore have not been presented.

The maximum potential exposure to loss in respect of these structured entities is the carrying value of the instruments that the Group holds as at 31 December 2023. Generally, default rates would have to increase substantially from their current level before the Group would suffer a loss on maturity, and this assessment is made prior to investing, and regularly through the holding period for the security. The Group has not provided any financial or other support in addition to that described above as at the reporting date, and there is no intention to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

As at 31 December 2023, the Group has a commitment of $50.0 million (31 December 2022 – $50.0 million) in respect of one credit facility fund. The Group, through the fund, provides collateral for revolving credit facilities purchased at a discount from financial institutions, and is at risk for its portion of any defaults on those revolving credit facilities. The Group's proportionate share of these revolving credit facilities purchased by the funds as at 31 December 2023 is $15.9 million (31 December 2022 – $19.9 million), which currently remains unfunded. The maximum exposure to the credit facility funds is $50.0 million, and as at 31 December 2023 there have been no defaults under these facilities.

13. Insurance contracts issued and reinsurance contracts held

A. Movements in the carrying amount - Insurance contract liabilities

The table below shows how the net carrying amounts of insurance contracts issued changed during the year ended 31 December 2023.

	Liability for remaining coverage	Liability for incurred claims		
	Including loss component $m	Estimates of the present value of future cash flows $m	Risk adjustment $m	Total $m
Net insurance contract liabilities (assets) as at 1 January 2023	**29.0**	**1,307.2**	**337.3**	**1,673.5**
Insurance revenue	(1,519.9)	—	—	(1,519.9)
Insurance service expenses				
• Incurred claims and other insurance service expenses	—	624.5	93.0	717.5
• Changes in liability for incurred claims	—	(111.6)	(97.9)	(209.5)
• Amortisation of insurance acquisition cash flows	188.2	—	—	188.2
Insurance service result before reinsurance contracts held	**(1,331.7)**	**512.9**	**(4.9)**	**(823.7)**
Finance expense from insurance contracts issued	—	77.9	20.4	98.3
Effects of movements in exchange rates	1.0	18.3	1.6	20.9
Total changes in consolidated statements of comprehensive income	**(1,330.7)**	**609.1**	**17.1**	**(704.5)**
Investment components	(47.1)	47.1	—	—
Other[1]	—	5.4	—	5.4
Other changes	**(47.1)**	**52.5**	**—**	**5.4**
Premiums received net of insurance acquisition cash flows	1,406.6	—	—	1,406.6
Claims and other expenses paid	—	(557.3)	—	(557.3)
Total cash flows	**1,406.6**	**(557.3)**	**—**	**849.3**
Net insurance contract liabilities (assets) as at 31 December 2023	**57.8**	**1,411.5**	**354.4**	**1,823.7**

1. Other movements includes the effect of the 2021 and prior underwriting years of account losses and loss adjustment expenses, and reinsurance recoveries, being reinsured to close into the 2022 underwriting year of account, to the extent where the Group's syndicate participation has changed between those years of account.

The liability for remaining coverage as at 31 December 2023 includes an onerous loss component of $1.0 million (31 December 2022 –$1.0 million).

13. Insurance contracts issued and reinsurance contracts held continued

The table below shows how the net carrying amounts of insurance contracts issued changed during the year ended 31 December 2022.

	Liability for remaining coverage	Liability for incurred claims		
	Including loss component $m	Estimates of the present value of future cash flows $m	Risk adjustment $m	Total $m
Net insurance contract liabilities (assets) as at 1 January 2022	32.9	1,050.9	218.5	1,302.3
Insurance revenue	(1,226.5)	—	—	(1,226.5)
Insurance service expenses				
• Incurred claims and other insurance service expenses	(0.3)	807.2	228.8	1,035.7
• Changes in liability for incurred claims	—	(98.2)	(103.1)	(201.3)
• Amortisation of insurance acquisition cash flows	160.2	—	—	160.2
Insurance service result before reinsurance contracts held	(1,066.6)	709.0	125.7	(231.9)
Finance income from insurance contracts issued	—	(15.0)	(5.1)	(20.1)
Effects of movements in exchange rates	(8.3)	(23.7)	(1.8)	(33.8)
Total changes in consolidated statements of comprehensive income	(1,074.9)	670.3	118.8	(285.8)
Investment components	(59.0)	59.0	—	—
Other[1]	4.4	(0.5)	—	3.9
Other changes	(54.6)	58.5	—	3.9
Premiums received net of insurance acquisition cash flows	1,125.6	—	—	1,125.6
Claims and other expenses paid	—	(472.5)	—	(472.5)
Total cash flows	1,125.6	(472.5)	—	653.1
Net insurance contract liabilities (assets) as at 31 December 2022	29.0	1,307.2	337.3	1,673.5

1. Other movements includes the effect of the 2020 and prior underwriting years of account losses and loss adjustment expenses, and reinsurance recoveries, being reinsured to close into the 2021 underwriting year of account, to the extent where the Group's syndicate participation has changed between those years of account.

The liability for remaining coverage as at 31 December 2022 includes an onerous loss component of $1.0 million (31 December 2021 – $1.3 million).

B. Movements in the carrying amount - Reinsurance contracts held

The table below shows how the net carrying amounts of reinsurance contracts held changed during the year ended 31 December 2023.

	Asset for remaining coverage	Asset for incurred claims		
	Including loss component $m	Estimates of the present value of future cash flows $m	Risk adjustment $m	Total $m
Net reinsurance contract (assets) liabilities as at 1 January 2023	41.9	(373.5)	(142.7)	(474.3)
Allocation of reinsurance premium paid	424.8	—	—	424.8
Amounts recoverable from reinsurers				
• Recoveries of incurred claims and other insurance service expenses	(0.2)	(62.3)	(4.9)	(67.4)
• Change in assets for incurred claims in relation to past service	—	63.6	39.6	103.2
• Reinsurance expenses	(16.3)	—	—	(16.3)
• Recoveries and reversals of recoveries of losses on onerous underlying contracts	0.2	—	—	0.2
• Effect of changes in non-performing risk of reinsurers	—	(2.9)	—	(2.9)
Net expenses from reinsurance contracts held	408.5	(1.6)	34.7	441.6
Finance income from reinsurance contracts held	—	(24.4)	(7.3)	(31.7)
Effects of movements in exchange rates	(4.9)	(2.5)	—	(7.4)
Total changes in consolidated statements of comprehensive income	403.6	(28.5)	27.4	402.5
Other[1]	—	(2.6)	—	(2.6)
Other changes	—	(2.6)	—	(2.6)
Reinsurance premiums paid net of ceding commissions and other directly attributable expenses	(403.0)	—	—	(403.0)
Recoveries from reinsurance	—	89.6	—	89.6
Total cash flows	(403.0)	89.6	—	(313.4)
Net reinsurance contract (assets) liabilities as at 31 December 2023	42.5	(315.0)	(115.3)	(387.8)

1. Other movements includes the effect of the 2021 and prior underwriting years of account losses and loss adjustment expenses, and reinsurance recoveries, being reinsured to close into the 2022 underwriting year of account, to the extent where the Group's syndicate participation has changed between those years of account.

The asset for remaining coverage as at 31 December 2023 includes an onerous loss recovery component of $0.1 million (31 December 2022 – $0.1 million).

The table below shows how the net carrying amounts of reinsurance contracts held changed during the year ended 31 December 2022.

	Asset for remaining coverage	Asset for incurred claims		
	Including loss component $m	Estimates of the present value of future cash flows $m	Risk adjustment $m	Total $m
Net reinsurance contract (assets) liabilities as at 1 January 2022	41.8	(272.0)	(96.3)	(326.5)
Allocation of reinsurance premium paid	371.8	—	—	371.8
Amounts recoverable from reinsurers				
• Recoveries of incurred claims and other insurance service expenses	(0.1)	(224.4)	(100.2)	(324.7)
• Change in assets for incurred claims in relation to past service	—	7.4	51.6	59.0
• Reinsurance expenses	(18.3)	—	—	(18.3)
• Recoveries and reversals of recoveries of losses on onerous underlying contracts	—	—	—	—
• Effect of changes in non-performing risk of reinsurers	—	2.5	—	2.5
Net expenses from reinsurance contracts held	353.4	(214.5)	(48.6)	90.3
Finance expense from reinsurance contracts held	—	4.5	2.2	6.7
Effects of movements in exchange rates	6.9	5.0	—	11.9
Total changes in consolidated statements of comprehensive income	360.3	(205.0)	(46.4)	108.9
Other[1]	—	(2.1)	—	(2.1)
Other changes	—	(2.1)	—	(2.1)
Reinsurance premiums paid net of ceding commissions and other directly attributable expenses	(360.2)	—	—	(360.2)
Recoveries from reinsurance	—	105.6	—	105.6
Total cash flows	(360.2)	105.6	—	(254.6)
Net reinsurance contract (assets) liabilities as at 31 December 2022	41.9	(373.5)	(142.7)	(474.3)

1. Other movements includes the effect of the 2020 and prior underwriting years of account losses and loss adjustment expenses, and reinsurance recoveries, being reinsured to close into the 2021 underwriting year of account, to the extent where the Group's syndicate participation has changed between those years of account.

The asset for remaining coverage as at 31 December 2022 includes an onerous loss recovery component of $0.1 million (31 December 2021 – $nil).

13. Insurance contracts issued and reinsurance contracts held continued

C. Claims development

The development of claims in respect of insurance contracts issued is indicative of the Group's ability to accurately estimate the ultimate value of its liability for incurred claims. Actual claim payments are compared with previous estimates within the claims development disclosures below for both the undiscounted liability for incurred claims, and the undiscounted asset for incurred claims, as at 31 December 2023. The Group considers that there is no significant uncertainty with regards to claims that were incurred prior to the 2018 accident year. The Group has therefore elected to use a permitted practical expedient, and has presented only six accident years of claims development prior to the adoption date of IFRS 17. The total undiscounted liability for incurred claims for all years prior to the 2018 accident year represents less than 10% of the total undiscounted liability for incurred claims. The Group considers the claims development information presented to show the period (being the 2018 accident year) when the earliest material claims arose, and for which there is still uncertainty in respect of the amount and timing of the claims payments as at 31 December 2023.

Accident year	2018 $m	2019 $m	2020 $m	2021 $m	2022 $m	2023 $m	Total $m
Liability for incurred claims - undiscounted							
Estimate of ultimate liability[1]							
At end of accident year	456.2	357.9	475.5	828.4	1,137.4	815.0	
One year later	479.0	353.5	435.6	759.5	1,046.0		
Two years later	445.7	320.8	388.0	727.7			
Three years later	429.3	308.1	387.6				
Four years later	403.0	312.3					
Five years later	394.5						
Cumulative claims and other directly attributable expense paid	(358.8)	(253.9)	(276.7)	(466.8)	(374.9)	(170.8)	
Liability for incurred claims - undiscounted	**35.7**	**58.4**	**110.9**	**260.9**	**671.1**	**644.2**	**1,781.2**
Liability for incurred claims - undiscounted - prior years							91.0
Effect of discounting							(165.5)
Non-distinct investment components							59.2
Liability for incurred claims							**1,765.9**

1. Adjusted for the revaluation of foreign currencies as at the 31 December 2023 exchange rates.

Accident year	2018 $m	2019 $m	2020 $m	2021 $m	2022 $m	2023 $m	Total $m
Asset for incurred claims - undiscounted							
Estimate of ultimate asset[1]							
At end of accident year	123.7	102.9	83.4	185.8	349.8	69.2	
One year later	164.3	104.2	79.4	165.4	285.3		
Two years later	157.6	92.0	72.1	151.0			
Three years later	149.0	94.4	72.6				
Four years later	140.1	98.3					
Five years later	136.4						
Cumulative claims and other directly attributable expenses paid	(121.3)	(59.6)	(38.2)	(39.0)	(57.3)	(40.0)	
Asset for incurred claims - undiscounted	**15.1**	**38.7**	**34.4**	**112.0**	**228.0**	**29.2**	**457.4**
Asset for incurred claims - undiscounted - prior years							11.6
Effect of discounting							(38.7)
Asset for incurred claims							**430.3**

1. Adjusted for the revaluation of foreign currencies as at the 31 December 2023 exchange rates.

13. Insurance contracts issued and reinsurance contracts held continued

During 2023, the Group experienced net losses (undiscounted, including reinstatement premiums) from catastrophe, weather and large loss events totalling $106.1 million. None of these events were individually material for the Group.

In comparison, during 2022, the Group experienced net losses (undiscounted, including reinstatement premiums) from catastrophe, weather and large loss events of $329.4 million. Within this, catastrophe and weather related losses for the year ended 31 December 2022, were $232.4 million. This included $181.0 million from hurricane Ian. Large losses for the year amounted to $97.0 million and included $70.5 million related to the conflict in Ukraine.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Group, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

There were no other individually significant net loss events for the years ended 31 December 2023 and 31 December 2022.

14. Provision for deferred tax

As at 31 December	2023 $m	Restated 2022 $m
Equity based compensation	**(8.1)**	(5.0)
Syndicate underwriting profits	**3.5**	(0.3)
Syndicate participation rights	**18.8**	18.8
Other temporary differences	**2.0**	(2.9)
Tax losses carried forward	**—**	(0.3)
Net deferred tax liability	**16.2**	10.3

Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is probable. It is anticipated that sufficient taxable profits will be available within the Group in 2023 and subsequent years to utilise the deferred tax assets recognised when the underlying temporary differences reverse, and the tax losses carried forward.

For the years ended 31 December 2023 and 2022, the Group had no uncertain tax positions (see note 9). The table below reconciles the movements within the net deferred tax liability.

As at 31 December	2023 $m	Restated 2022 $m
Opening liability	**10.3**	11.6
Deferred tax charge (credit) for the period	**3.8**	(2.3)
Adjustment in respect of prior period deferred tax	**2.5**	1.1
Deferred tax in equity	**(0.4)**	(0.1)
Closing liability	**16.2**	10.3

All deferred tax assets and liabilities are classified as non-current.

OECD global minimum tax and Bermuda corporate income tax

To address concerns about uneven profit distribution and tax contributions of large multinational corporations, various agreements have been reached at the global level, including an agreement by over 135 jurisdictions to introduce a global minimum tax rate of 15%. In December 2021 the OECD released a draft legislative framework, followed by detailed guidance in March 2022, that is expected to be used by individual jurisdictions that signed the agreement to amend their local tax laws.

Subsidiary companies in the UK, Canada and Australia will be subject to a global minimum tax of 15% from 1 January 2024 as they are implementing an income inclusion rule or a qualifying domestic minimum top-up tax.

Legislation was also passed in Bermuda on 27 December 2023 to implement a corporate income tax regime from 1 January 2025. The Bermuda corporate income tax regime will supercede the previously granted tax assurances which provided an exemption from corporate income taxes until 31 March 2035 for LHL and its Bermuda domiciled subsidiaries. To the extent the Bermuda corporate income tax results in an effective tax rate of less than 15%, the shortfall in tax will be collected applying the Pillar Two, under taxed payments rule which will be implemented on 1 January 2025. Any shortfall in tax will be collected in a jurisdiction that has implemented the under taxed payments rule and in which the Group has operating subsidiaries. For Lancashire this is likely to be the UK, however based on its limited international presence, Lancashire expects to meet the relevant conditions to benefit from exclusion for a period of five years, from 2025 to 2029, from the under taxed payments rule.

The Group will continue during 2024 to assess the potential impact of the Economic Transition Adjustment introduced by the recent Bermuda Corporate Tax legislation. In light of emerging guidance and uncertainty as to the potential impact for the Group, no decision has yet been taken as to whether to take advantage of available tax deductions arising from the Economic Transition Adjustment or to use the opt out available.

The Group does not anticipate that it will become subject to the Bermuda corporate income tax until 1 January 2030, as it expects to fall within the exclusion within the Bermuda corporate income tax rules that means groups with a limited international presence are excluded from scope for a period of up to five years. In the event the Group makes a future decision to make use of the Economic Transition Adjustment it expects to have potential deferred tax assets relating to the transition rules and elections available in the Bermuda corporate income tax legislation but does not consider that taxable profits for 2030 and subsequent years can currently be considered to be sufficiently probable to allow for recognition of any potential deferred tax assets in the short term.

15. Investment in associate

The Group holds an interest in the preference shares of each segregated account of KHL. KHL is a company incorporated in Bermuda and its operating subsidiary, KRL, is authorised by the BMA as a Special Purpose Insurer. KRL commenced writing insurance business on 1 January 2014. As at 31 December 2023, the carrying value of the Group's investment in KHL was $16.2 million (31 December 2022 – $59.7 million (restated)). The Group's share of profit for KHL for the period was $12.1 million (2022 – $5.4 million loss (restated)).

Key financial information for KHL is as follows:

	2023 $m	Restated 2022 $m
Assets	**315.7**	532.7
Liabilities	**220.2**	287.1
Shareholders' equity	**95.5**	245.6
Insurance revenue	**(0.1)**	40.3
Comprehensive income (loss)	**62.4**	(29.4)

The Group has the power to participate in the operational and financial policy decisions of KHL and KRL, and has therefore classified its investment in KHL as an investment in associate.

Refer to note 22 for details of transactions between the Group and its associate.

16. Leases

The Group leases five properties and various items of office equipment.

Right-of-use assets

The Group had the following right-of-use assets in relation to the leases it has entered into:

	Property $m	Equipment $m	Total $m
Net book value as at 31 December 2021	13.2	0.2	13.4
Additions	6.3	0.1	6.4
Modifications	3.2	—	3.2
Depreciation charge	(2.6)	(0.1)	(2.7)
Net book value as at 31 December 2022	20.1	0.2	20.3
Additions	**0.2**	**—**	**0.2**
Modifications	**2.2**	**—**	**2.2**
Depreciation charge	**(3.3)**	**(0.1)**	**(3.4)**
Net book value as at 31 December 2023	**19.2**	**0.1**	**19.3**

Lease liabilities

As at 31 December	2023 $m	2022 $m
Due in less than one year	**4.5**	3.6
Due between one and five years	**15.9**	13.4
Due in more than five years	**9.5**	12.3
Total undiscounted lease liabilities	**29.9**	29.3
Total discounted lease liabilities as per the consolidated statement of financial position	**24.7**	23.3
Current	**3.2**	2.2
Non-current	**21.5**	21.1

The Group does not face a significant liquidity risk with regards to its lease liabilities.

Amounts recognised in profit or loss

For the year ended 31 December	2023 $m	2022 $m
Depreciation of right-of-use assets	**3.4**	2.7
Interest expense on lease liabilities	**1.5**	0.8
Expenses relating to short-term leases and variable leases	**1.2**	0.9
Total	**6.1**	4.4

Total lease payments amounted to $3.8 million for the year ended 31 December 2023 (31 December 2022 – $3.6 million).

17. Intangible assets

	Syndicate participation rights $m	Goodwill $m	Internally generated intangible assets $m	Total $m
Net book value as at 31 December 2021	83.5	71.2	3.2	157.9
Additions	4.2	–	10.3	14.5
Net book value as at 31 December 2022	87.7	71.2	13.5	172.4
Additions	**3.3**	**—**	**7.0**	**10.3**
Amortisation	**—**	**—**	**(0.2)**	**(0.2)**
Impairment	**—**	**—**	**(1.4)**	**(1.4)**
Net book value as at 31 December 2023	**91.0**	**71.2**	**18.9**	**181.1**

Syndicate participation rights and goodwill

During the year ended 31 December 2023, the Group's corporate member acquired additional participation rights in Syndicate 2010, which took the Group's share on the 2024 year of account to 72.1% (2023 year of account – 69.3%).

Indefinite life intangible assets are tested annually for impairment. For the purpose of impairment testing, the syndicate participation rights and goodwill have been allocated to the LSL CGU.

The recoverable amount of the LSL CGU is determined based on its value in use. Value in use is calculated using the projected cash flows of the LSL CGU. These are approved by management and cover a three-year period. The most significant assumptions used to derive the projected cash flows include an assessment of business prospects, business plans approved by Lloyd's, expected future market conditions, premium growth rates, outwards reinsurance expenditure, projected loss ratios, investment returns and climate change. To mitigate the impact of climate risk, the Group accepts insurance risk for periods primarily of one year. This provides the Group with the ability to re-evaluate its insurance portfolio on an annual basis and, therefore, reprice the relevant elements of risk, and also reset exposure levels to consider new data regarding the frequency and severity of elemental catastrophe events, as appropriate.

A pre-tax discount rate of 8.9% (2022 – 9.9%) has been used to discount the projected cash flows. This discount rate reflects the current market assessment of the time value of money and the risks specific to the asset for which the projected cash flow estimates have not been adjusted. The discount rate is determined with reference to a combination of factors, including the Group's expected weighted average cost of equity and cost of borrowing. This has been calculated using independent measurements of the risk-free rate of return and is indicative of the Group’s risk profile relative to the market. The lower pre-tax discount rate compared to 2022 is primarily due to an overall decrease in the cost of equity included in the Group's weighted average cost of capital calculation. This was driven by an increase in the risk-free rate and a decrease in the beta value input assumptions. The growth rate used to extrapolate the cash flows is 2.5% (2022 – 2.5%) and is based on historical growth rates, as well as management’s best estimate of future growth rates, taking into account current economic market conditions.

Sensitivity testing has been performed to model the impact of reasonably possible changes in input assumptions to the base case impairment analysis and headroom. The discount rate has been flexed to 100 basis points above the central assumption (resulting in a 15% reduction in headroom), the growth rate has been flexed to 100 basis points below the central assumption (resulting in a 13% reduction in headroom), and the pre-tax projected cash flows have been flexed to 500 basis points below the central assumption (resulting in a 5% reduction in headroom). Within these ranges, the recoverable amount remains supportable.

No impairment loss has been recognised for the years ended 31 December 2023 and 31 December 2022.

Internally generated intangible assets

Internally generated intangible assets represent directly attributable costs incurred in the development phase of implementing cloud-based software to support the Group's target operating model. As at 31 December 2023, certain of the internally generated intangible assets are available for use and have commenced amortisation. During the year ended 31 December 2023, management considered the relevant indicators of impairment at an individual intangible asset level and performed an impairment review where it was determined appropriate. Following the performance of this impairment review, $1.4 million of impairment losses were recognised in other operating expenses (2022 – $nil).

18. Long-term debt and financing arrangements

Long-term debt

During the year ended 31 December 2021, LHL issued $450.0 million (being the aggregate principal amount) of 5.625% fixed-rate reset junior subordinated notes, repayable on 18 September 2041. The long-term debt was issued in two tranches forming part of the same series of notes, with $400.0 million issued on 18 March 2021, and $50.0 million issued on 31 March 2021. Interest is payable semi-annually in arrears on 18 March and 18 September of each year, from 18 September 2021. The fixed interest rate will reset on 18 September 2031 and each reset date thereafter, at a rate per annum equal to the prevailing five-year treasury rate, plus a credit spread of 4.08% and a 100 basis point step-up.

The carrying value of the Company's issued $450.0 million junior subordinated notes are shown below:

As at 31 December	2023 $m	2022 $m
Junior subordinated notes		
$450.0 million 5.625% fixed-rate reset notes issued March 2021, due September 2041	**446.6**	446.1
Carrying value	**446.6**	446.1

The fair value of the long-term debt is $388.3 million (31 December 2022 – $352.0 million). The fair value measurement is classified within Level (ii) of the fair value hierarchy and is based on observable data.

The interest accrued on the long-term debt as at 31 December 2023 was $7.2 million (31 December 2022 – $7.2 million) and is included within other payables. Refer to note 8 for details of the interest expense for the year included within financing costs.

LHL has the option to redeem some or all of the junior subordinated notes, in whole or in part, prior to the maturity date. There are no negative or financial covenants attached to the issued junior subordinated notes.

Letters of credit

As both LICL and LUK are non-admitted insurers or reinsurers throughout the U.S., the terms of certain contracts require them to provide LOCs to policyholders as collateral.

The following LOCs have been issued by the Group:

As at 31 December	2023 $m	2022 $m
Issued to third parties	**5.6**	27.3

These LOCs are required to be fully collateralised.

LHL and LICL have a $250.0 million syndicated collateralised credit facility that has been in place since 20 March 2020, and will expire on 20 March 2025. There was no outstanding debt under this facility as at 31 December 2023 and 2022.

The facility is available for the issue of LOCs to ceding companies. The facility is also available for LICL to issue LOCs to LUK to collateralise certain insurance obligations.

The terms of the $250.0 million syndicated collateralised credit facility include standard default and cross-default provisions, which require certain covenants to be adhered to. These include the following:

i. an A.M. Best financial strength rating of at least B++;

ii. a maximum debt to capital ratio of 30.0%, where the junior subordinated notes are excluded as debt from this calculation;

iii. a maximum subordinated unsecured indebtedness of $350.0 million; and

iv. a maximum aggregated indebtedness (a) under any syndicate arrangement entered into by Lancashire Syndicates in connection with the underwriting business carried on by all such members of the syndicates, and (b) incurred by CCL 1998, LHL or LICL in the ordinary course of business in connection with coming into line requirements, of $200.0 million.

On 3 March 2021 and 20 October 2022, LHL and LICL obtained waivers from their lenders in relation to the limits on debt incurrence under the $250.0 million syndicated collateralised credit facility, which allowed (a) LHL to issue its $450.0 million 5.625% fixed-rate reset junior subordinated notes due in 2041, and (b) the Group to increase the aggregate amount of indebtedness incurred under the facilities referenced in part (iv.) above up to a maximum of $400.0 million.

A $215.5 million syndicated uncollateralised LOC facility and a $70.0 million collateral pledge facility have been in place since 25 October 2023 and 5 December 2023, respectively, and are available for utilisation by LICL and guaranteed by LHL for FAL purposes. As at 31 December 2023, a $215.5 million LOC was issued under the syndicated uncollateralised LOC facility, due to expire on 31 December 2027, and $70.0 million of agreed collateral had been deposited, due to expire on 31 December 2024.

The terms of these facilities include standard default and cross-default provisions, which require certain covenants to be adhered to. These include the following:

i. an A.M. Best financial strength rating of at least B++;

ii. a maximum debt to capital ratio of 30.0%, where the junior subordinated notes are excluded as debt from this calculation; and

iii. maintenance of a minimum net worth requirement.

As at all reporting dates, the Group was in compliance with all covenants and waivers under these facilities.

Syndicate bank facilities

As at 31 December 2023 and 31 December 2022, Syndicate 2010 had in place a $60.0 million LOC catastrophe facility. The facility is available to assist in paying claims and the gross funding of catastrophes for Syndicate 2010. A separate uncommitted overdraft facility of $20.0 million is also available to Syndicate 2010.

There are no balances outstanding under the Syndicate bank facilities as at 31 December 2023 and 31 December 2022.

Trust and restricted balances

The Group has several trust arrangements in place in favour of policyholders and ceding insurers, in order to comply with the security requirements of certain reinsurance contracts and/or the regulatory requirements of certain jurisdictions.

In 2012, LICL established an MBRT to collateralise certain reinsurance liabilities associated with U.S. domiciled clients. LICL continues to maintain its accredited or trusteed reinsurer status in those U.S. states where there are outstanding liabilities collateralised through the MBRT. However, following LICL's approval as a reciprocal reinsurer in 2022 and 2023 in the majority of U.S. states, the MBRT is no longer expected to be required for new business written with policyholders domiciled in the 52 U.S. states and territories where LICL has received reciprocal reinsurer approval.

The MBRT is subject to the relevant U.S. state rules and regulations, and the respective deeds of trust. These rules and regulations include minimum capital funding requirements, investment guidelines, capital distribution restrictions, and regulatory reporting requirements.

The Group is required to hold a portion of its assets as FAL to support the underwriting capacity of both Syndicate 2010 and Syndicate 3010. FAL are restricted in their use and are only drawn down to pay cash calls to syndicates supported by the Group. FAL requirements are formally assessed twice a year and any funds surplus to requirements may be released at that time. See page 166 for more information regarding FAL requirements.

In addition to the FAL, certain cash and investments held by Syndicate 2010 and Syndicate 3010 are only available for paying the syndicates' claims and expenses. See page 166 within the risk disclosures for more information regarding the capital requirements for Syndicate 2010 and Syndicate 3010.

As at and for the years ended 31 December 2023 and 31 December 2022, the Group was in compliance with all covenants under its trust facilities.

The following cash and cash equivalent, and investment balances are held in trust collateral accounts in favour of third parties, or are otherwise restricted:

As at 31 December	2023 Cash and cash equivalents $m	2023 Fixed maturity securities $m	2023 Total $m	2022 Cash and cash equivalents $m	2022 Fixed maturity securities $m	2022 Total $m
FAL	**7.0**	**245.3**	**252.3**	2.5	398.4	400.9
MBRT accounts	**0.2**	**266.0**	**266.2**	3.1	251.9	255.0
Syndicate accounts	**61.9**	**127.9**	**189.8**	127.4	240.2	367.6
In trust accounts for policyholders	**112.2**	**47.0**	**159.2**	69.1	24.3	93.4
In favour of LOCs	**2.4**	**17.3**	**19.7**	2.3	30.8	33.1
Loan to Lloyd's Central Fund	**—**	**3.2**	**3.2**	—	3.1	3.1
Total	**183.7**	**706.7**	**890.4**	204.4	948.7	1,153.1

19. Share capital and other reserves

Authorised common shares of $0.50 each	Number	$m
As at 31 December 2023 and 2022	**3,000,000,000**	**1,500.0**

Allocated, called up and fully paid common shares of $0.50 each	Number	$m
As at 31 December 2023 and 2022	**244,010,007**	**122.0**

Own shares	Number held in treasury	$m	Number held in trust	$m	Total number of own shares	$m
As at 31 December 2021	—	—	2,170,898	18.1	2,170,898	18.1
Shares distributed	—	—	(1,084,053)	(8.1)	(1,084,053)	(8.1)
Shares repurchased	4,589,592	23.3	—	—	4,589,592	23.3
Shares donated to trust	(4,589,592)	(23.3)	4,589,592	24.0	—	0.7
As at 31 December 2022	—	—	5,676,437	34.0	5,676,437	34.0
Shares distributed	—	—	**(704,407)**	**(4.3)**	**(704,407)**	**(4.3)**
As at 31 December 2023	—	—	**4,972,030**	**29.7**	**4,972,030**	**29.7**

The number of common shares in issue with voting rights (allocated share capital, less shares held in trust/treasury) as at 31 December 2023 was 244,010,007 (31 December 2022 – 244,010,007).

Share repurchases

At the AGM held on 26 April 2023, LHL's shareholders approved a renewal of the Company's Repurchase Programme authorising the repurchase of a maximum of 24,401,000 common shares, with such authority to expire on the conclusion of the 2024 AGM or, if earlier, 15 months from the date the resolution approving the Repurchase Programme was passed.

During the year ended 31 December 2023, no shares were repurchased by the Company under the Repurchase Programme. During the year ended 31 December 2022, 4,589,592 common shares were repurchased by the Company under its Repurchase Programme, at a weighted average share price of £4.23.

Under the Repurchase Programme, the Board authorised management to repurchase 24,401,000 common shares within certain parameters for a maximum consideration not exceeding $50.0 million, commencing on 22 November 2023 and ending on 29 February 2024. No shares were repurchased by the Company during this period.

Dividends

The Board of Directors have authorised the following dividends:

Type	Per share amount	Record date	Payment date	$m
Final	$0.10	13 May 2022	10 June 2022	24.3
Interim	$0.05	5 Aug 2022	2 Sep 2022	11.9
Final	**$0.10**	**5 May 2023**	**2 June 2023**	**23.9**
Interim	**$0.05**	**18 Aug 2023**	**15 Sep 2023**	**11.9**
Special	**$0.50**	**17 Nov 2023**	**15 Dec 2023**	**119.5**

Other reserves

The Group's other reserves of $1,233.2 million (31 December 2022 – $1,221.9 million) comprises contributed surplus and an equity based compensation reserve. The equity based compensation reserve comprises $23.9 million (31 December 2022 – $33.3 million) of this balance and relates to the Group's equity compensation plans (see note 7).

20. Earnings per share

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

For the year ended 31 December	2023 $m	Restated 2022 $m
Profit (loss) after tax	**321.5**	(15.5)

	2023 Number of shares	2022 Number of shares
Basic weighted average number of shares	**238,811,761**	240,328,201
Dilutive effect of RSS	**5,192,761**	3,017,193
Diluted weighted average number of shares	**244,004,522**	243,345,394

Earnings (loss) per share	2023	Restated 2022
Basic	**$1.35**	($0.06)
Diluted[1]	**$1.32**	($0.06)

1. Diluted EPS excludes dilutive effect of RSS when in a loss making position.

Equity based compensation awards are only treated as dilutive when their conversion to common shares would decrease the earnings per share, or increase loss per share, from continuing operations. Unvested restricted shares without performance criteria are therefore included in the number of potentially dilutive shares. Incremental shares from ordinary restricted share options, where relevant performance criteria have not been met, are not included in the calculation of dilutive shares.

21. Commitments and contingencies

Credit facility fund

As at 31 December 2023, the Group has a commitment of $50.0 million (31 December 2022 – $50.0 million) relating to one credit facility fund (refer to note 12).

Private investment funds

The table below shows the dates on which the Group committed to invest in four different private investment funds and the amount of the total commitment that remains undrawn as at 31 December 2023.

Date of commitment to invest in private investment fund	Total commitment $m	Undrawn commitment $m
18 October 2022	**10.0**	**3.5**
28 July 2021	**34.0**	**15.3**
9 December 2020	**25.0**	**0.5**
5 November 2019	**25.0**	**1.0**
Total	**94.0**	**20.3**

Legal proceedings and regulations

The Group operates in the insurance industry and is, therefore, from time to time, subject to legal proceedings in the normal course of business. While it is not practicable to estimate or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on the Group's results and financial position.

22. Related party disclosures

The Group's consolidated financial statements include LHL and the entities listed below:

Name	Principal Business	Domicile
Subsidiaries[1]		
CCHL	Holding company	United Kingdom
CCL	Holding company	United Kingdom
CCL 1998[2]	Lloyd's corporate member	United Kingdom
CCL 1999	Non trading	United Kingdom
CUL	Non trading	United Kingdom
LAPL	Non trading	Australia
LICLIHL	Holding company	Bermuda
LCM	Insurance agent services	Bermuda
LCMMSL	Support services	United Kingdom
LICL	General insurance business	Bermuda
LUS[3]	Surplus line broker	United States of America
LIHL	Holding company	United Kingdom
LHUS[3]	Holding company	United States of America
LIMSL	Insurance mediation activities	United Kingdom
LISL	Support services	United Kingdom
LHAPL	Holding company	Australia
LMSCL	Support services	Canada
LSL	Lloyd's managing agent	United Kingdom
LUAPL	Lloyd's service company	Australia
LUK	General insurance business	United Kingdom
Associate		
KHL[4] (and its subsidiary KRL)	Holding company / General insurance business	Bermuda
Other controlled entities		
EBT	Trust	Jersey

1. Unless otherwise stated, the Group owns 100% of the ordinary share capital and voting rights in its subsidiaries listed.
2. 69.3% participation on the 2023 year of account, and 72.1% participation on the 2024 year of account, for Syndicate 2010.
3. Entities incorporated in May 2023.
4. The Group has a 15.0% holding through its interest in the preference shares of each segregated account of KHL.

The EBT was established to assist in the administration of the Group's employee equity based compensation schemes. While the Group does not have legal ownership of the EBT, and the ability of the Group to influence the actions of the EBT is limited by the trust deed in place, the EBT was set up by the Group with the sole purpose of assisting in the administration of these schemes and it is in essence, therefore, controlled by the Group, and is, consequently, consolidated within the Group.

The Group has a Loan Facility Agreement (the 'Facility') with JTC PLC, the trustee of the EBT. The Facility is an interest free revolving credit facility under which the trustee can request advances on demand, within the terms of the Facility, up to a maximum aggregate amount of $80.0 million. The Facility may only be used by the trustee for the purpose of achieving the objectives of the EBT. During the year ended 31 December 2023, the Group had made advances of $nil (31 December 2022 – $0.5 million) to the EBT under the terms of the Facility.

During the year ended 31 December 2023, no common shares were donated by the Company to the EBT. During the year ended 31 December 2022, the Company donated 4,589,592 common shares (repurchased under its Repurchase Programmes) to the EBT for a total market value of $23.3 million at the prevailing rate. LHL did not issue any common shares to the EBT during the year ended 31 December 2023 or 31 December 2022.

LICL holds $215.5 million (31 December 2022 – $203.8 million) of cash and cash equivalents, fixed maturity securities, and accrued interest in trust for the benefit of LUK relating to intra-group reinsurance agreements. In addition, LICL is required to provide 100% of the required FAL for the Group to support the underwriting activities of Syndicate 2010 and Syndicate 3010. LICL holds $252.3 million (31 December 2022 – $400.9 million) of cash and cash equivalents and fixed maturity securities in FAL with the remaining FAL requirement covered by a LOC and a collateral pledge facility (refer to note 18).

Mr Maloney and his spouse acquired 100.0% of the shares in Nameco on 7 November 2016. Nameco provides capacity to a number of Lloyd's syndicates, including Syndicate 2010 which is managed by LSL. Nameco has provided $0.2 million of capacity to Syndicate 2010 for the 2024 year of account (2023 year of account – $0.2 million). Mr Maloney receives a proportionate share of the underwriting results of Syndicate 2010 to which he is contractually entitled through his participation. These transactions occurred on an arm's length basis.

Key management compensation

Remuneration for key management, the Group's Executive and Non-Executive Directors, was as follows:

For the year ended 31 December	2023 $m	2022 $m
Short-term compensation	**4.9**	2.7
Equity based compensation	**2.5**	0.8
Directors' fees and expenses	**2.5**	2.3
Total	**9.9**	5.8

Non-Executive Directors do not receive any benefits in addition to their agreed fees and expenses, and do not participate in any of the Group's incentive, performance or pension plans.

Transactions with the Group's associate and the associate's subsidiary

In 2013, LCM entered into an underwriting services agreement with KRL and KHL to provide various services relating to underwriting, actuarial, premium payments and relevant deductions, acquisition expenses, and receipt of claims. For the year ended 31 December 2023, the Group recognised $nil (2022 – $4.0 million) of service fees and profit commissions in other income (refer to note 5) in relation to this agreement.

During 2023, the Group committed an additional $nil (31 December 2022 – $nil) of capital to KHL. During 2023, KHL returned $55.6 million (31 December 2022 – $55.0 million) of capital to the Group.

Refer to note 15 for further details on the Group's investment in associate.

During 2021, the Group entered into reinsurance agreements with KRL. The following balances are included in the Group's consolidated financial statements:

Consolidated statement of financial position	2023 $m	Restated 2022 $m
Reinsurance contract asset	**19.1**	19.1

Consolidated statement of comprehensive income	2023 $m	Restated 2022 $m
Allocation of reinsurance premium	—	(3.1)
Amounts recoverable from reinsurers	—	(4.1)

23. Impact of adoption - IFRS 17 Insurance Contracts

Recognition, measurement and presentation

IFRS 17 establishes new principles for the recognition, measurement, presentation and disclosure of insurance contracts issued and reinsurance contracts held.

The standard includes a number of significant changes to existing practice regarding the measurement and disclosure of insurance contracts issued and reinsurance contracts held both in terms of liability measurement and profit recognition.

IFRS 17 is a principles-based accounting standard and the valuation of insurance contract liabilities continues to be the largest area of estimation uncertainty. This includes consideration of the cash flows within the contract boundary, discounting and the risk adjustment for non-financial risk calculation. There are a number of accounting policy choices that are allowed under the standard and this requires the application of judgement and an increased use of estimation techniques. Management has applied judgement in interpreting the standard in areas such as determining the applicable measurement model, the approach to discounting and the level of aggregation (see accounting policies).

The Group has determined that at the date of transition it is eligible to apply the PAA to its portfolios and groups of insurance contracts issued, and reinsurance contracts held, on the basis that the measurement of the LRC and the ARC is not expected to differ materially from that calculated under the GMM. The PAA simplifies the measurement of the LRC, replacing the FCF plus contractual service margin approach of the GMM with a measurement based on net of acquisition cost premiums received less those recognised through revenue. For reinsurance contracts held, the Group applied the PAA adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

Effect of initial application

The Group has adopted IFRS 17 retrospectively from its effective date of 1 January 2023. The transition approach was determined at a group of insurance contracts level. Under the PAA, the Group concluded that only current and prospective information was required to reflect circumstances at the transition date, which made the fully retrospective approach practicable.

Accordingly, as at 1 January 2022, the Group identified, recognised and measured each group of insurance contracts issued and reinsurance contracts held as if IFRS 17 had always applied, derecognised any existing balances that would not have existed had IFRS 17 always applied, and recognised any resulting differences in shareholders' equity.

The Group has applied the transition provisions in IFRS 17, and has not disclosed the impact of the adoption of IFRS 17 on each financial statement line item and EPS.

The consequential amendments to IFRS 3 Business Combinations, introduced by IFRS 17, require the Group to assess and classify any insurance contracts acquired as part of a business combination effective at a date on or after the implementation date of IFRS 17, being 1 January 2023, on the basis of the contractual terms of the insurance contracts, and other relevant factors, as at the date of acquisition. This requirement is not applicable to business combinations before 1 January 2023, for which the Group was required to assess and classify all insurance contracts acquired as part of a business combination as insurance contracts on the basis of the conditions at the inception of the individual insurance contracts. Therefore this requirement of IFRS 17 has not been applied retrospectively.

The initial application of IFRS 17 resulted in a $18.9 million net reduction to total shareholders' equity reported within the consolidated statement of shareholders' equity.

The two largest valuation adjustments, representing $15.7 million of the net reduction in total shareholders' equity on the initial application of IFRS 17, included:

- a $38.4 million net reduction in shareholders' equity from establishing a directly attributable expense reserve and releasing the ULAE provision previously established under IFRS 4. This is due to the IFRS 17 requirement that all future cash flows related to the fulfilment of insurance contracts issued be captured within portfolios and applied to groups of insurance contracts. This replaced, at an increased amount, the existing ULAE provision; and
- a $22.7 million net increase in shareholders' equity from discounting the LIC and the AIC. Since not all cash flows are expected to be paid or received in one year or less from the date claims are incurred, the Group is required to discount the estimate of future cash flows included in both the LIC and the AIC. As current discount rates are applied, this is subject to a degree of volatility (see note 3). Under IFRS 4, insurance contract liabilities were not discounted by the Group.

Other smaller valuation adjustments, representing $3.2 million of the net reduction in total shareholders' equity on initial application of IFRS 17, arose from:

- the requirement to revalue all component parts of insurance contract liabilities and reinsurance contract assets at current foreign exchange rates. Under IFRS 4, the previously established unearned premium and deferred acquisition cost balances were considered non-monetary assets and were translated at historic exchange rates;
- including expected premiums within the estimates of future cash flows that are used to determine insurance revenue. Under IFRS 4, for the majority of the Group's excess of loss contracts, premiums written were recorded based on the minimum, deposit, or flat premiums, as defined in the contract. Subsequent adjustments to the minimum, deposit or flat premiums were recognised in the period in which they were determined;
- the requirement to recognise immediately an onerous loss component and, if applicable, the corresponding reinsurance coverage in place (a loss recovery component), on the initial recognition of an onerous group of insurance contracts (see note 13); and
- the requirement to include an element of non-performance risk in the cash flow assumptions when measuring the reinsurance contract asset balance under IFRS 17. Under IFRS 4, the Group had not previously recognised a bad debt provision on losses recoverable from reinsurers.

The Group reported a total comprehensive loss of $92.6 million in the annual audited consolidated financial statements for the year ended 31 December 2022. Following the adoption of IFRS 17, the restated total comprehensive loss for the year ended 31 December 2022 is $15.5 million. This $77.1 million increase in the consolidated statement of comprehensive income, alongside the $18.9 million decrease in total shareholders' equity, recorded at the date of initial application, results in a $58.2 million cumulative increase to total shareholders' equity from adopting IFRS 17 as at 31 December 2022.

Under IFRS 17, a risk adjustment for non-financial risk is required to be determined, to reflect the compensation that the Group requires for bearing non-financial risk, and its degree of risk aversion to such non-financial risks. The Group's risk adjustment for non-financial risk under IFRS 17 does not differ materially from the Group's reserve margin under IFRS 4, as the fundamentals of our reserving methodology remain unchanged following the implementation of IFRS 17 (see insurance risk disclosure).

IFRS 17 has also resulted in a number of presentation differences compared to the previous IFRS 4 consolidated financial statements, specifically:

- the insurance service result comprises insurance revenue, insurance service expenses, and the net expenses from reinsurance contracts held;
- reinsurance contracts held are required to be presented separately from insurance contracts issued;
- the reporting of gross premiums written is no longer applicable under IFRS 17 and insurance revenue equates more closely to gross earned premium. Reinstatement premiums are recognised net against insurance service expenses, while commissions paid to cedants are recognised as a net deduction to insurance revenue. Non-distinct investment components, which are defined as amounts that are repayable in all circumstances, are required to be excluded from insurance revenue and insurance service expenses;
- a portion of operating expenses are included in insurance service expenses (see note 6); and
- on the face of the consolidation statement of financial position all insurance-related balances will be presented in either insurance contract liabilities, or reinsurance contract assets, as appropriate.

The accounting policies for insurance contracts issued and reinsurance contracts held under IFRS 17 are set out on pages 138 to 143.

24. Impact of adoption - IFRS 9 Financial Instruments: Classification and Measurement

The Group adopted IFRS 9 on 1 January 2023 (the same effective date as IFRS 17), as permitted under the June 2020 amendments to IFRS 4 - Insurance Contracts. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification, and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets, and hedge accounting. In summary:

- the classification and measurement categories of financial assets under IFRS 9 are assessed based on the Group's business model for managing those financial assets;
- under IFRS 9, the three classification categories for financial assets are: FVTPL (mandatory or designated), FVOCI, and amortised cost. IFRS 9, therefore, eliminates the previous IAS 39 measurement categories of FVTPL (held for trading or designated), AFS, held-to-maturity, and loans and receivables;
- an ECL impairment model replaces the IAS 39 incurred loss model. The expected credit loss approach requires an allowance to be established at initial recognition of an asset classified as FVOCI or amortised cost, reflecting the level of losses anticipated having regard to, amongst other things, expected future economic factors. Subsequently, the amount of the allowance is affected by changes in the expectations of loss driven by changes in the associated credit risk. As at the date of transition, it was determined that the impact of ECLs were not material;
- new hedge accounting requirements have been introduced. The Group does not apply hedge accounting and has, therefore, not considered in detail the changes in this area as a result of adopting IFRS 9;
- the requirements for derecognition under IFRS 9 are broadly unchanged from IAS 39; and
- the classification and measurement for financial liabilities under IFRS 9 are broadly unchanged from IAS 39.

Effect of initial application

The Group has adopted IFRS 9 retrospectively effective from the date of initial application of IFRS 17 on 1 January 2023. The Group also elected to apply the classification overlay to restate its comparative information, as permitted by an amendment to IFRS 17 (amendments of the initial application of IFRS 17 and IFRS 9 - Comparative Information, issued in December 2021). The classification overlay has been applied to all financial assets derecognised in the comparative period. A change of classification as at 1 January 2022 has been applied using the business model classification on 1 January 2023.

The Group has established that all investment classes are managed, and their performance evaluated, on a fair value basis, and, therefore, they have been classified as FVTPL. For cash and cash equivalents, and other receivables, the objective is to collect the contractual cash flows only, and, therefore, they have been classified as amortised cost. The Group's classification of financial liabilities has remained unchanged.

The Group's accounting policies for financial instruments under IFRS 9 are set out on pages 144 to 145. The application of these policies resulted in the reclassifications set out below:

As at 1 January 2022	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 $m	Carrying amount under IFRS 9 $m
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	517.7	**517.7**
Fixed maturity securities - AFS	AFS	FVTPL (mandatory)	1,780.2	**1,780.2**
Fixed maturity securities - FVTPL	FVTPL (designated)	FVTPL (mandatory)	28.9	**28.9**
Private investment funds - FVTPL	FVTPL (designated)	FVTPL (mandatory)	105.7	**105.7**
Hedge funds - FVTPL	FVTPL (designated)	FVTPL (mandatory)	102.9	**102.9**
Index linked securities - FVTPL	FVTPL (designated)	FVTPL (mandatory)	30.5	**30.5**
Other investments	FVTPL	FVTPL (mandatory)	(0.1)	**(0.1)**
Other receivables	Loans and receivables	Amortised cost	18.8	**18.8**
Total financial assets			2,584.6	**2,584.6**
Financial liabilities				
Other payables	Amortised cost	Amortised cost	37.4	**37.4**
Long-term debt	Amortised cost	Amortised cost	445.7	**445.7**
Total financial liabilities			483.1	**483.1**

The adoption of IFRS 9 has resulted in a $2.9 million, net of tax reclassification adjustment between opening accumulated other comprehensive income and opening retained earnings, as at 1 January 2022 (see consolidated statement of shareholders' equity). This reclassification adjustment does not impact opening shareholders' equity as at 1 January 2022. The tables below outline the reclassification of financial statement line items, as well as the earnings per share impacts of adopting IFRS 9.

Consolidated statement of financial position	As at 31 December 2021 - IAS 39 $m	Reclassification of investments $m	Reclassification of tax $m	Restated as at 1 January 2022 $m
Investments				
• Fixed maturity securities - AFS	1,780.2	(1,780.2)	—	—
• Fixed maturity securities - FVTPL	28.9	1,780.2	—	1,809.1
Total financial assets[1]	2,584.6	—	—	2,584.6
Total financial liabilities[1]	483.1	—	—	483.1
Accumulated other comprehensive income	2.9	(3.3)	0.4	—
Retained earnings	83.9	3.3	(0.4)	86.8
Total shareholders' equity[1]	86.8	—	—	86.8

1. Line items that were not impacted by changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated statement of financial position	As at 31 December 2022 - IAS 39 $m	Reclassification of investments $m	Reclassification of tax $m	Restated as at 31 December 2022 $m
Investments				
• Fixed maturity securities - AFS	1,942.9	(1,942.9)	—	—
• Fixed maturity securities - FVTPL	22.0	1,942.9	—	1,964.9
Total financial assets[1]	2,783.8	—	—	2,783.8
Total financial liabilities[1]	490.2	—	—	490.2
Accumulated other comprehensive loss	(86.4)	89.9	(3.5)	—
Retained earnings	44.4	(89.9)	3.5	(42.0)
Total shareholders' equity[1]	(42.0)	—	—	(42.0)

1. Line items that were not impacted by changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided.

The following table shows the adjustments to the consolidated statement of comprehensive income for the year ended 31 December 2022 for each individual line item impacted by the adoption of IFRS 9.

Consolidated statement of comprehensive income	For the year ended 31 December 2022 - IAS 39 $m	IFRS 9 impact $m	Restated for the year ended 31 December 2022 - IFRS 9 $m
Net investment income (IAS 39) / return (IFRS 9)	43.7	(120.4)	(76.7)
Net other investment income (IAS 39 only)	(4.5)	4.5	—
Net realised (losses) gains and impairment (IAS 39 only)	(22.7)	22.7	—
Loss before tax[1]	(2.8)	(93.2)	(96.0)
Tax (charge) credit	(0.5)	3.9	3.4
Loss after tax[1]	(3.3)	(89.3)	(92.6)
Net change in unrealised losses on investments	(93.2)	93.2	—
Tax credit on net change in unrealised losses on investments	3.9	(3.9)	—
Other comprehensive loss[1]	(89.3)	89.3	—
Total comprehensive loss for the year[1,2]	(92.6)	—	(92.6)
Loss per share			
Basic	($0.01)	($0.38)	($0.39)
Diluted	($0.01)	($0.38)	($0.39)

1. Line items that were not impacted by changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided.
2. See note 23 for the impact to the consolidated statement of comprehensive income of adopting IFRS 17.

The table below illustrates the impact that changes in the classification of our investment portfolio, following the adoption of IFRS 9, had on the Group's earnings per share data for the year ended 31 December 2023.

Earnings per share	Reported earnings per share (see note 20)	IFRS 9 impact	Earnings per share had the Group not adopted IFRS 9
Basic	**$1.35**	**($0.25)**	**$1.10**
Diluted	**$1.32**	**($0.25)**	**$1.07**

25. Adoption of IFRS 17 and IFRS 9 - Comparative information

Comparative figures have been restated to reflect the new accounting standards and the accounting policies described on pages 135 to 147.

26. Subsequent events

Dividend

On 5 March 2024, the Board of Directors declared the payment of a special dividend of $0.50 per common share, which will result in an aggregate payment of approximately $119.0 million. The dividend will be paid on 12 April 2024 to shareholders of record on 15 March 2024. An amount equivalent to the dividend accrues on all RSS awards and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

On 5 March 2024, the Board of Directors also declared the payment of an ordinary dividend of $0.15 per common share, subject to a shareholder vote of approval at the AGM on 1 May 2024, which will result in an aggregate payment of approximately $36.0 million. On the basis that the final dividend is so approved by the shareholders at the AGM, then the dividend will be paid on 7 June 2024 to shareholders of record on 10 May 2024. An amount equivalent to the dividend accrues on all RSS awards and is paid at the time of exercise, pro-rata according to the number of RSS options that vest.

Commitment

On 11 January 2024, the Group entered into an agreement to invest in a private investment fund, with an initial commitment of $44.4 million. The capital commitment is expected to be partially drawn down quarterly throughout 2024.